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PROPOSED CHANGES IN THE FEDERAL TOBACCO PROGRAM

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

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PROPOSED CHANGES IN THE FEDERAL TOBACCO PROGRAM

TUESDAY, JUNE 14, 1983

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The committee met, pursuant to notice, at 9:30 a.m., in room 328A, Russell Senate Office Building, Hon. Jesse Helms (chairman of the committee) presiding.

Present: Senators Helms and Huddleston.

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

The CHAIRMAN. The committee will come to order.

We meet today, of course, to take testimony from witnesses with expertise in the management and operation of the tobacco price support program, and from others.

Senator METZENBAUM. From others. I certainly am not an expert.

The CHAIRMAN. We are grateful to each of you for taking your time to share your thinking with the committee, and I know that the testimony the committee will hear today will make a substantial contribution to a better understanding of the adjustments the committee must consider.

The tobacco program has served the farmers, and the economies of the Southeast, well during its 45 years of existence, and I am confident that it will continue to do so. However, in recent years, U.S.-produced tobacco has become less competitive in world markets. This has resulted in a significant decline in the U.S. share in those markets, and an increase in the imports of foreign-produced tobacco into the United States.

This year the national poundage quota is less than it has been in any year since 1889. In short, a consensus exists among tobacco growers that we must act decisively if we are to continue to enjoy the economic benefits we have come to depend on so much.

Furthermore, large numbers of tobacco allotments have come to be controlled by persons other than those who grow the tobacco. This has caused stress in the program within the tobacco-producing regions, as growers have seen their profit margins substantially reduced by ever-increasing lease costs, and it has caused much criticism of the entire tobacco program in Congress among those who believe that the direct advantage of the program should accrue to active farmers, and not to relatively large numbers of nonfarmers.

Earlier this year, I asked representatives of various farm organizations and all other interested parties to meet for the purpose of setting forth whatever changes and recommendations they could agree upon to resolve these two problems. It is that list of recommendations which constitutes the substance of the statutory changes that Congress will soon consider, and it is my hope that today's hearing will establish the rationale for and the explanation of the proposed statutory changes.

Again, on behalf of everyone interested in tobacco, I appreciate the role that they have played in this important endeavor.

Senator Huddleston.

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM KENTUCKY

Senator HUDDLESTON. Thank you very much, Mr. Chairman.[1] I think it might be well to say at the outset that the tobacco program that has evolved over some 40 years now, by any measurement that a person might want to use, has proven to be the most effective program that the Congress has enacted relating to agriculture products. It has been inexpensive to the taxpayers; it has done more good for whom it was designed to help, the growers; it has provided the manufacturers with a consistent, reliable supply of quality product.

Another feature of the tobacco program and those who are involved in it, and particularly the producers, is that throughout these years, all have been willing to make certain adjustments and changes that have seemed to be appropriate and necessary at the time. The program has gone from one dealing with acreage allotments to poundage, when that seemed to be the best course to follow. The growers themselves have assumed greater responsibility for the cost of the program as the years have gone by, such as paying for the grading and inspection. The so-called loan subsidy has been reduced and eliminated over the years. And then, of course, last year, the major change in making the program a no net cost program to the Government by the growers assuming the cost for any potential losses for that tobacco that goes into the pool.

So I think it is significant that this program has developed throughout the years in a changing way, and that now, confronted with conditions that exist today, those involved are willing to make certain other changes that will, in my judgment, strengthen the program and make it more workable even than it has been in the past.

So I commend the chairman for moving aggressively on these hearings and working on legislation to make those changes that do seem appropriate, and I welcome the opportunity to participate in these discussions.

I might say one thing further, that those familiar with the programs know that there is a difference in the tobacco-producing areas of the country. The big divisions, of course, are those generally referred to as the Flue-cured area and the burley area, and some provisions that are appropriate for one growing area may not nec-

[1] See p. 93 for the prepared statement of Senator Huddleston.

essarily be appropriate for the other. And the chairman, coming from one growing area, and I from another are working together to make sure that what the final product is is a correct blend, satisfying the needs and the requirements of each separate growing area. So I thank the chairman for his cooperation in that regard, and I look forward to hearing the witnesses this morning.

The CHAIRMAN. Thank you, Senator.

I want to say again what I have said on many occasions, that no committee chairman in the Senate is more blessed than I in having the privilege of working with Dee Huddleston. He is a good Senator and a fine human being.

Speaking of fine human beings, we have Senator Metzenbaum of Ohio. We won't quite agree on this subject, but we welcome you nonetheless.

I invited Senator Metzenbaum and Senator Garn. We're delighted to have you here this morning, and you may proceed.

Senator METZENBAUM. Thank you, Senator Helms.

The CHAIRMAN. Without objection, your statement will be inserted into the record.[1]

STATEMENT OF HON. HOWARD M. METZENBAUM, A U.S. SENATOR FROM OHIO

Senator METZENBAUM. I truly appreciate your courtesy in inviting me to testify today. I might say that, to the best of my recollection, it is the first time that I have appeared before the Agriculture Committee. I do not think that the table is shaking, as a result of nervousness, because I am not nervous. It is probably due to the fact that I am sitting in Senator Dole's seat. But I am happy to be here, and I am certainly——

The CHAIRMAN. Well, that is known as the television seat. You see, the cameras are right there.

Senator METZENBAUM. I see. Those of us in politics would never give any heed to a matter of that kind.

The CHAIRMAN. Of course not.

Senator METZENBAUM. And I am certainly pleased to be here with my good friend, Dee Huddleston, who regularly trounces my ears on the tennis court. But, in spite of that fact, he is my good friend.

As you know, I joined Senator Garn and 10 other cosponsors, Senators Roth, Stafford, Percy, Tsongas, Pell, Proxmire, Hatch, Danforth, Mitchell, and Gorton, in introducing S. 1179, the Tobacco Deregulation Act of 1983. Congressman Tom Petri of Wisconsin, along with 53 cosponsors, has introduced similar legislation in the House.

Now, why legislation in this area? Let me first say that I think that there are two basic issues involved.

The first of these two basic issues has to do with the inconsistency between the free enterprise system, and the existence of an allotment program that says you can only grow so much, or you can grow it, but you do not have certain privileges if you do. That

[1] See p. 94 for the prepared statement of Senator Metzenbaum.

seems to be a total contradiction of everything in which all of us believe about the economy and how it ought to operate in America.

The second basic issue has to do with the fact that the one arm of Government expends funds to try to alert people to the problems and the frightful results that come from smoking, while another arm of Government is involved in encouraging further production of tobacco. That kind of inconsistency is very difficult for the people of America to understand and, frankly, it is difficult for me to understand.

As a consequence, there has developed a general feeling that something seems to be wrong, as a result, the legislation we have introduced has gained broad bipartisan support, both in the Senate and the House. And as I read those names to you, I am sure you would agree that these are not Members coming from one segment or one philosophical position taken in the Congress of the United States. Rather, it is an amalgam of Democrats and Republicans; liberals, moderates, and conservatives, all are concerned about this program.

In addition, an unusually wide group of organizations are supporting our position, and have endorsed our legislation: The American Lung Association, the American Public Health Association, Action on Smoking and Health, Public Citizen, Congress Watch, the National Taxpayers' Union, the Council for a Competitive Economy, and the United Tobacco Growers of North Carolina.

There are good reasons why this legislation has attracted so much interest.

On one level, Mr. Chairman, our bill is intended to eliminate what our colleague from Utah, Senator Jake Garn, has described as "an offensive paradox." That paradox is our Government's wildly inconsistent policy of actively discouraging smoking, while at the very same time promoting the production of tobacco, the matter which I mentioned just a moment ago.

There can be no doubt that smoking is one of this Nation's leading public health problems. Each year, says the American Lung Association, "More Americans die prematurely from smoking-related diseases than gave their lives in World War I, World War II, the Korean war and Vietnam combined." That is a shocking statistic. More Americans die prematurely from smoking than the total of all the Americans that gave their lives in World War I, World War II, the Korean war and Vietnam combined.

The American Public Health Association describes smoking as our most widespread drug addiction, and as the single most preventable cause of illness and death in the United States. There are some deaths and some illnesses about which we can do very little. But in this area, there is something that can be done and should be done.

Now, the opponents of our bill maintain that its enactment will not discourage smoking. They happen to be right. We do not claim that it will. But we do say that enactment of the Tobacco Deregulation Act will make our national policy consistent. And we also say that as a matter of principle, the Federal Government should not be in the tobacco business.

But consistency aside, this legislation is needed in order to terminate a costly, cumbersome, and anticompetitive Federal program that has, by any standard, outlived its usefulness.

Now, Mr. Chairman, and I don't intend to engage in a dispute with you on the question of whether the tobacco program is or is not costly. You and I have discussed that subject on many occasions. But I'm frank to say to you that I do not really believe that is the nub of our concern. There is some cost involved. It is not enough to unbalance the total budget. Whether it is *x* dollars, or *10x*, or *100x* is not the issue. The issue is, is the program right? Is it philosophically right? Is it economically right? Is it right in a free enterprise system? And is it right in view of a government that recognizes the dangers of further tobacco smoking?

The USDA's tobacco program began in the thirties, when tobacco farmers were getting as little as 6 cents a pound for their product. Supply controls were useful at that time, but as J. S. Seagraves of North Carolina State University concluded in a recent paper entitled "The Life Cycle of the Flue-Cured Tobacco Program," the program no longer serves the interests of the tobacco growers.

"Supply controls can have large benefits to producers at first," Mr. Seagraves wrote, "and then 'burn themselves out' as they create incentives for other countries to expand production and for manufacturers to introduce substitutes. This happened in the case of the Flue-cured tobacco program. The U.S. share of the world's Flue-cured tobacco production has fallen from 64 percent in the late 1930's to about 18 percent today. Imports of Flue-cured tobacco, which were insignificant before 1967 now represent about one-fourth of domestic consumption."

In and of itself, that sends a loud message. There is something wrong with a program that is making it possible for more imports to come in in order to protect that portion of the market that is still left and to maintain the higher prices.

Mr. Chairman, the problem goes beyond a "burned out" supply control system. The real problem is the nature of that system. Just because a farmer wants to produce tobacco in this country does not mean that he can do so. Now, tobacco may be produced without penalty only by those who hold an acreage allotment assigned more than 30 years ago. Those allotments are as hereditary as any fuedal domain in medieval Europe.

But ours is supposed to be the greatest free market economy in the world. We say that we believe in free enterprise, competition, the discipline of the marketplace. But not, it seems, where tobacco is concerned.

And I would say, Mr. Chairman, that probably no Member of the Senate has addressed himself more than you have to the whole question of free marketplace and free enterprise operations in this country. I understand your position on this matter because of your own constituency. We all have our constituencies to worry about, to think about, to try to protect. In that connection, I might say that I have some tobacco growers in Ohio. I am not at all certain that they are going to give me the Medal of Honor for speaking out on this subject. And yet I feel so strongly about the subject that I hope they will tolerate what they may consider to be the error of my ways in this respect, because I think that the program is not

good for tobacco growers, and I do not think it is good for the country.

The allotment system, which was designed originally to help farmers, is today a major source of income for whom? For nonfarmer holders of tobacco allotments. There are 95,000 tobacco farmers, and 500,000 holders of tobacco allotments. About 84 percent of all family tobacco farmers must rent allotments in order to grow their crops. Rent can run over $1,000 per acre, and increases the cost of production for growers by 30 to 60 percent. No wonder last year we imported 503 million dollars' worth of tobacco, mainly of the type grown in the United States.

Last year we enacted legislation entitled the "No Net Cost Tobacco Act." As many of us suspected at the time, the bill has only made cosmetic changes in the program, without addressing the real problems, but I do commend those who decided to call it the no net cost bill. It read well.

The CHAIRMAN. You liked that?

Senator METZENBAUM. I liked that.

The CHAIRMAN. Yes.

Senator METZENBAUM. The program has resulted in massive tobacco surpluses. Over 25 percent of last year's crop was bought as surplus, at a cost approaching $1 billion. Secretary Block has warned that his authority under the no net cost bill is not sufficient to adjust the price support level to actually realize no net costs.

The tobacco program is not working. The Federal allotment system, whose benefits go disproportionately to nonfarmers, has outlived whatever usefulness it may once have had, and I believe that it is high time to bring to tobacco production the benefits of free enterprise.

Our bill will give the free market a chance to work. It will give our farmers a fighting chance to recover their share of the domestic and world tobacco markets. It will protect low-income allotment holders by buying out their allotments at the fair market price as of March 8, 1983.

And in that connection, Mr. Chairman, I do want you to know that we make a distinction between the small farmer with a small allotment, and those who are the nonresidential allotment holders who are just renting their allotments.

I believe that tobacco deregulation is long overdue, and I hope that the committee will, in its consideration of tobacco legislation, seriously examine deregulation as an alternative to further tinkering with an inherently faulty program.

Now, having said that, Mr. Chairman, let me be very candid and frank with you. I know how I feel about tobacco allotment programs. I know how I feel about this legislation. But I also know that I do not nearly know one-tenth as much as you or the Senator from Kentucky know about the allotment program. I am not an authority on the law. I know how it is working, and I believe it should be changed, but if you were to ask me some very intricate questions about the operational aspects of it, I do not claim to be an authority on its operations.

The CHAIRMAN. Senator, I will not do that. I do find myself wishing that you could be with us throughout the day, because I antici-

pate that some rather eloquent responses will be made to the arguments you have made, and you have made those arguments and Senator Huddleston and I have responded to them on many occasions on the Senate floor. You are our adversary on this issue and on this matter, but we are not enemies.

Senator METZENBAUM. Friendly adversary.

The CHAIRMAN. I want you to know that I respect you and I recognize that it took a little bit of courage to come here this morning, but these folks may not agree with you but they respect you for——

Senator METZENBAUM. Why do they have that lynch rope right outside the door?

The CHAIRMAN. That's for me. The North Carolina fund put that up early this morning.

Senator Huddleston.

Senator HUDDLESTON. Well, thank you, Mr. Chairman.

I, too, am pleased that our colleague has chosen to appear this morning, and just let me say, Howard, that we are very benevolent about your situation. As long as there is one sheep outside the fold, we are going to keep working to bring you in, and eventually educate you and——

Senator METZENBAUM. Just don't make me the goat.

Senator HUDDLESTON. Increase your understanding a little of this program.

I don't want to debate, either, the questions that you have raised here. They have come up many times. I think maybe some comment might be appropriate, however. We are all concerned, of course, about the free enterprise system, and I do not believe anybody in the Senate more so than our chairman and other members of this committee. If there were such a thing as a free enterprise system working in this country, or anywhere else in the world, maybe we would be a little more pliant in our views on this particular matter.

But having a control mechanism is not unusual in this country and, as a matter of fact, it is partly the reason that the country has succeeded as well as it has. All of our agriculture programs require some control system connected with it. We are going to vote in a few minutes over on the floor of the Senate about controlling the cable television industry, and we have regulations relating to telephone operations and utility operations, so this is not something that is foreign to the way we operate up here.

The health issue, I would want to put on the record that the Government does not encourage the use or even the growth of tobacco and does not promote it, and this program does not promote it. The program totally eliminated would probably be counterproductive to the idea that we ought to reduce smoking in this country. I think it would be very easy to show that without any kind of control mechanism the large growers would grow tobacco at less cost probably, the manufacturers may be able to reduce the price of the product, and it may become more accessible and more usable than it is at the present time.

So it seems to me, unless you are willing to say that we ought to prohibit this crop altogether, just totally prohibit it—and nobody that I know of has made such a suggestion—prohibit the products,

not allow them to be sold in this country, then it makes sense to have a program that controls the production and spreads whatever benefits may accrue from it over vast thousands of people, rather than to a few large producers that would be the production source for all tobacco in the future without the program we have.

We have had Surgeons General, we have had Secretaries of HEW and other people who have said flatly and publicly that the tobacco price support program is not related to the health issue and should not be considered in conjunction with that issue.

Incidentally, the people who are involved, the tobacco growers, vote on this program; 97 percent of those in Kentucky have supported it and are willing to accept the controls for the other benefits that may come to it. There is no reason that a mechanism should not be provided.

Now, it seems to me you are a little bit inconsistent when you talk about free enterprise and eliminating the program and getting the Government out of that as being contrary to the principles of this country, and yet on the other hand you say the Government ought to tell people what they can enjoy or not enjoy, or what particular vice they might want to subscribe to throughout their life. So you cannot have it both ways.

Senator METZENBAUM. I would say the latter has to do with their health, and I think all of us recognize that the Government has the right to legislate, and should legislate, in the area of health protection, whereas I do not think there is a health aspect on the economic question of allotments.

I do not mean to interrupt you.

Senator HUDDLESTON. Well, if you are going to get the Government involved on one side of the question, it is often difficult to say that they have to be totally out of the other side of the question.

You raised a question about the percentage of the world market, and I guarantee you that those in the tobacco business are very concerned about that. But we have lost some percentage of the world market in our wheat trade, too, and our grain trade, and our automobile trade, and our electronic trade, and all the other trading that we have. In fact, if it were not for agriculture, the balance of trade deficit that we have, which is already alarming, would be considerably more. So that is partly what this action that we are working on now addresses, is the question of our percentage in the world market.

Your figures are not correct on the number of actual tobacco farmers. You said 95,000; we have 150,000 tobacco farmers, the farmers, the people who are growing the tobacco, scratching out those little 1-acre allotments every year, in the State of Kentucky alone. In total 22 States grow tobacco.

The import question is certainly a problem. It is also a problem in the automobile industry, in the meat industry, and in virtually every other industry in this country, and partly what we are trying to do is addressing that problem.

To say last year's action was cosmetic will come as a great surprise to the tobacco farmer and the warehousemen and the manufacturers. It was a major change in the program concept, and the growers themselves assumed a major responsibility in being re-

sponsible for that tobacco that does not sell above the support price.

To look at last year and say that that is an indication that the program is not working is not accurate, either. Looking at it from the burley standpoint, we had a bumper crop. The U.S. Congress enacted a tax increase of 100 percent on tobacco products. That caused consternation among the industry and actually caused a decrease in sales. One crop does not establish a lasting surplus necessary in the tobacco field, so I think that we need a little time to see whether or not those conditions are going to prevail.

At any rate, the legislation that the chairman is contemplating is designed, again, to deal with that particular problem and to eliminate any further responsibility or obligation on the part of the Government, as well as relieve some of the obligation on the part of the growers.

So, with that, Senator, I am glad to have you with us today.

Senator METZENBAUM. I am going to go back and check on mathematics. My understanding, however, is that the 95,000 growers is the current USDA figure on the number of farmers who produce tobacco in commercial quantities. Commercial means $2,500 in annual income from agriculture of which at least half—$1,250—comes from tobacco.

Senator HUDDLESTON. That is just the first installment of what will be a continuing effort to acquaint you further with all of the intricacies and details of this complicated program.

The CHAIRMAN. Thank you, Senator.

I want to move on to the discussion of the legislation.

Before you go, Howard, I purposely did not engage in any discussion of your message. We will do that on the Senate floor, I am sure, again, and again, and again. I want you to know that I respect you, but around this place it is certainly true that one man's meat is another man's poison.

I think of the vote on the International Monetary Fund last week in the Senate, a clear, at least to this Senator, bail-out of the big banks in New York City, and yet some of the people who were most enthusiastic for that legislation say, "Oh, you have to kick these tobacco growers of North Carolina and 21 other States in the teeth."

So all we ask is for——

Senator METZENBAUM. Are you not glad I was on your side on that issue?

The CHAIRMAN. Well, I believe you were not there, Howard. [Laughter.]

Senator METZENBAUM. That was because I had a grandchild and I went out to see him. That had priority.

The CHAIRMAN. For whatever reason, you were not there, Howard.

Senator METZENBAUM. But I was with you on the issue.

The CHAIRMAN. But on the grandchild business, I am solid with you.

Senator METZENBAUM. Well, that takes care of that.

The CHAIRMAN. Thank you very much.

Senator METZENBAUM. Thank you very much.

The CHAIRMAN. God bless you.

All right. Let me say to all assembled that we will have a series of votes beginning at 10:15. We will have three in tandem, back-to-back, and that is going to present some problem, but it will not be necessary for at least the chairman to leave until 10:25, just in time to catch that last vote.

Dee, we will try to double back and forth, and if we get in a case of tights, as they say in North Carolina, I suggest that the staff director take a little testimony, so that we can keep the testimony flowing, because we do have a great many people whom we are anxious to hear.

Our first two witnesses will be Hoke Leggett, who is Associate Administrator of the Agricultural Stabilization and Conservation Service of the USDA, and Ken Howland, who is Marketing Deputy Director, Tobacco, Cotton and Seed Division, Foreign Agricultural Service, U.S. Department of Agriculture.

If you two gentlemen will come forward?

Dee, if you will hold the gavel while I am gone for just a minute, and if you gentlemen will proceed?

Mr. Leggett, your statement will be inserted in the record.

STATEMENT OF C. HOKE LEGGETT, ASSOCIATE ADMINISTRATOR, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. LEGGETT. Mr. Chairman and members of the committee, my name is C. Hoke Leggett. I am Associate Administrator of the Agricultural Stabilization and Conservation Service, U.S. Department of Agriculture. In addition this morning, we have Ken Howland from FAS, and we have specialists in attendance from our Tobacco and Peanuts and Analysis Divisions, as well, who can assist us in responding to questions later.

We certainly appreciate the opportunity to appear before you today to discuss the tobacco price support program.

Mr. Chairman, I will not attempt to read all of this statement, but I will discuss it, and we have a series of charts, which you will also find a copy of on the back side of the prepared testimony, which we will refer to.[1]

Certainly, the Secretary recognizes the great contribution that tobacco makes to our national economy, as well as the contribution it makes toward a favorable balance of trade. The importance of international tobacco trade to the United States certainly should not be understated. The United States is the leading exporter and the leading importer of unmanufactured tobacco, and far and away the No. 1 exporter of manufactured tobacco products.

You will notice here on our first chart, as we relate to the balance of trade, our exports over our imports in raw leaf tobacco, while our tonnage in tobacco exports has gone down, we have continued to increase and widen the gap of exports over imports, particularly since 1981.

Leaf tobacco exports amount to more than $1.5 billion. In addition to that, our second chart shows that in the export of manufactured products, in 1982 we exported $1.3 billion. Taken together,

[1] See p. 96 for the prepared statement of Mr. Leggett.

the leaf exports and the tobacco products exports, we show a net balance of trade in the export field of $2.3 billion, which is a record contribution by tobacco to our export balance of trade.

It goes almost without saying that our American tobacco producers are heavily dependent upon the world markets. Nearly half the U.S. Flue-cured crop moves into exports. Burley exports approach one-fifth of our total production.

Despite this, however, we have lost relatively in our export performance over the past few years. For example, 10 years ago, four-tenths of the world's Flue-cured tobacco was produced in this country, excluding the production of the People's Republic of China, and also we supplied four-tenths of the world's exports in Flue-cured. Last year, we produced less than one-fourth of the world's Flue-cured tobacco, and our exports were only one-fourth of the total.

During the same period, imports into the United States have grown. In 1973, less than one-fifth of the tobacco used in our cigarettes was imported. Most of this was oriental, which is not produced in our country.

Today, nearly one-third of the tobacco consumed in cigarettes in the United States is imported, and more than half of this is Flue-cured and burley leaf and scrap.

In short, during the past 10 years, foreign-grown tobacco has taken practically all of the growth in consumption outside of the United States and certainly a significant portion of consumption in this country.

The erosion in demand for U.S. tobacco in the export and domestic markets is largely due to the continuing disparity between its cost and that of tobaccos produced in developing countries. To the extent that the price support program has helped maintain this cost gap, it has encouraged production and consumption of cheaper foreign-grown tobacco.

Current and prospective supply and demand factors point toward acceleration in the loss of market share for U.S. tobacco, at least in the near term.

Tobacco consumption in the United States and most major consuming countries is stable or declining due to tax and price increases, smoking and health concerns, and the effects of economic recession on disposable income. Rising costs and continuing high interest rates are encouraging greater efficiencies in leaf manufacturing and reductions in leaf inventories. Leaf supplies worldwide are generally in excess of anticipated requirements. The strength of the dollar in relation to the currencies of importing countries and recent devaluations by competing exporters—and we list here a number of examples—Argentina, Brazil, Mexico, and Zimbabwe—are making U.S. tobacco less price competitive.

We sincerely feel that unless measures are taken to bring the price of Flue-cured, burley, and other kinds of tobacco in line with prices of competitive foreign growths, we face the prospect of further loss of sales in the export and domestic markets, a continuing buildup of loan inventories, increased contributions by producers to the no net cost fund, and certainly reductions in production quotas.

Let us look for a minute or two at how tobacco ranks among our other commodities.

In the export market, tobacco ranks fourth or fifth, depending upon which year you take, in dollars of exports. It is only exceeded by the combination of wheat and flour, corn, soybeans, and sometimes by cotton. In 1982 and in 1983, we are forecasting that tobacco will be the fourth leading commodity in exports.

About 35 percent of the tobacco exported is unmanufactured and about 5 percent is in products.

Tobacco is the fifth leading commodity in value of among cash crops produced in the United States. It is also the 10th when we consider all agricultural commodities, including cattle, hogs, milk, eggs, and broilers. But of the row crops or crops that are produced from the land, rather than livestock, it plays quite a significant part in our income from commodities.

Tobacco also is a major user of family and on-farm labor, basically because it is produced primarily by small producers. It is one of the commodities that can really utilize family labor, as well as student labor, because the high production hours are in the summertime when our producers can hire college students, high school students and the like on a temporary basis to carry out the work.

Tobacco requires about 230 hours to produce 1 acre of tobacco. By contrast, wheat and rice require only 2¾ hours of labor.

About 5 percent of all labor used on farms, or about 226 million hours, went into tobacco production in 1981. Much tobacco labor comes, as we said, from the operators, their families, and from students.

Tobacco is the sixth or seventh leading user of labor, while on a per-acre basis, it is probably the highest.

The Department favors legislation that would amend section 106 of the Agricultural Act of 1949 to lower or freeze the price support for Flue-cured tobacco.

The no net cost program—excuse me. Let me back up just a minute, Mr. Chairman. We have overlooked two charts here that we have on the size of tobacco farms. You will note from the chart that from one-tenth of an acre to 2 acres, we have a vast majority of the allotment holders in Flue-cured, 109,439; from the 2 acres to 5 acres, 60,781; and 25,000 from 5 acres to 50 acres, with only 193 allotments over 50 acres. We only have 1 allotment, I believe, over 200 acres of Flue-cured tobacco.

This chart depicts the quota that falls within each of those categories. You will notice that practically all of the quota is for 50 acres and under, and having broken it down a little further, the vast majority of the quota is in the hands of producers with 25 acres and less.

Mr. Chairman, it is interesting that tobacco produces the amount of gross revenues in millions of dollars in exports and for domestic consumption on less than three-tenths of 1 percent of the farmland in the United States, yet it is high in labor requirements, and primarily young people that work on the farms during the summertime when they are out of school.

We will move along now with the testimony.

As we said a few moments ago, the Department does favor legislation that would amend section 106 of the Agricultural Act of 1949 to lower or freeze the price support for Flue-cured tobacco.

The No Net Cost Tobacco Program Act of 1982, in amending the 1949 act, requires that at least 65 percent of the increase computed using the support formula be added in the support level of that of the previous crop year. And the modest reduction—35 percent of the increase—can occur only when we find that the supply of certain grades of a particular tobacco is or is likely to be excessive.

The Department has proposed for the 1983 season a price-support level of $1.789 per pound minimum to a $1.838 maximum. The period for receipt of comments from the public ended on June 9, and we are now deciding on the support level and appropriate grade loan rates. Assuming the minimum support for the purpose of this discussion, a freeze at the 1982 level of $1.699 per pound would represent a reduction of about 5 percent.

With thousands of producers and a handful of multinational tobacco manufacturers, it is imperative that we have a structure that provides buyers an adequate supply at reasonable prices, while providing producers a fair return.

As you know, the administration favored enactment of the No Net Cost Tobacco Program Act of 1982. We considered the legislation as a positive first step in controlling the costs of the tobacco program. But we said in our legislative report that the discretion to adjust support levels was very narrow and may not be enough to allow USDA and producers to meet the no net cost objective specified in the Agriculture and Food Act of 1981.

Over the years, the statutory formula which must be used to calculate the level of price support for tobacco has resulted in increased support prices without regard to changes in tobacco production costs and prices of competing supplies. From 1971 to 1981, the increase in the level of price support for all kinds of tobacco was approximately 129 percent. Since the present formula for calculating the level of price support for tobacco was established by legislation in 1960, the U.S. share of the world Flue-cured tobacco exports has declined from approximately 60 to 26 percent. Imports of Flue-cured tobacco have increased from a negligible amount to approximately 12 percent of domestic use. For burley, imports have increased to 19 percent of domestic use.

U.S. Flue-cured prices for the 1981 tobacco buying season averaged 87 percent more than grower prices in the major competing countries of India, Canada, Thailand, Malawi, Brazil, Zimbabwe, and Korea.

Currency devaluations by major competitors in recent months have also contributed to greater differences in the prices for domestic and foreign tobacco. By contrast, the U.S. prices in 1962 were 62 percent more than the grower prices in the foreign countries listed above.

While costs vary markedly from grower to grower, USDA is able to estimate a representative production cost for Flue-cured tobacco. Excluding land and quota charges, production costs, except for 1979, average well below the levels of price support. The levels of price support for the 1981 and 1982 crops of tobacco were substantially greater than the cost of production. To slow the growth of foreign competition and increase U.S. tobacco's competitiveness, it is clear that consideration will have to be given to a substantial re-

vision or modification of the statutory method for calculating the level of price support.

Failure to take such action will surely necessitate sizable reductions in the basic quota, and sharp increases in producer contributions to no net cost funds or accounts will be necessary.

Although this hearing is to determine what changes should be made in the Flue-cured tobacco price support program, the formulas used in determining price supports for burley, Fire-cured, Dark Air-cured and cigar tobaccos provide very limited discretion for the Secretary of Agriculture. The formulas may have to be modified to assure that the program is operated at no net cost to the taxpayer.

The Department favors, in principle, a modification of the current arrangements for renting and leasing quota. However, there are several points here that we need to point out that would be associated with administering a program which requires that the owner share in the risk of the production of the crop. Administrative problems would probably be minimal in those cases in which a lessee leases quota from only one owner, but leasing quota from several farmowners would greatly complicate the problem. We have listed these, Mr. Chairman, in our statement, and I won't take up too much time and go through all of them, but I would like to point out one, which is No. 2 under our listing, which points out the problems of overmarketings and undermarketings of the quota, which would present problems to the lessee and lessors.

As you are probably aware, once a tobacco quota is transferred from one farm to another farm, if it is undermarketed during that current year, the balance remains with that farm, so if a lessor leased to a lessee who did not sell 100 percent of their quota, then the lessor would have no recourse or no way to collect any rent or any compensation for his undermarketed quota on that farm. The reverse would be true if he marketed 110 percent under the marketable regulations. We would assume, then, that the lessor would share in the 10-percent overmarketing, which would come off the following year's quota of the lessee.

So we would have many problems if we continue lease transfer and attempt to regulate the lessor sharing in the risk of the production of the tobacco.

We are pleased to discuss with the committee this morning some alternatives that we think may be considered in reaching the objectives which have been expressed regarding lease and transfer during 1984 and 1985. All in all, new legislative authority for Flue-cured tobacco would provide growers some additional steps in the effort to make U.S. tobacco production more competitive and to protect our market share in customer countries around the world. Some of the proposed changes, along with additional discretion for the Secretary of Agriculture, may need to be considered for burley and other kinds of tobacco under support.

Mr. Chairman, I personally am glad the committee has chosen to consider legislative changes, and certainly appreciate the opportunity to meet with you this morning, and we will be happy to try to answer any questions that you or members of the committee have.

The CHAIRMAN. Before we turn to Mr. Howland, I want to remind all present that there is a vote on, and shortly Senator Huddleston and I will have to leave. There will be some questions

on my part, and I am sure on the part of Senator Huddleston, and I suggest, Dee, that to save time, we let Carl Rose and George Dunlop ask those questions for the record.

But I do want to ask one about Senator Metzenbaum, for whom I have the greatest affection, and I have heard all of his comments before, and we will hear them again on the evening news, without any rebuttal, but he scarcely made a statement that we could not have not rebutted in the past with other facts, but let me ask this question about the position of the USDA.

You may recall that Senator Metzenbaum said that Secretary Block has said that he could not achieve a no net cost program. Now, is that a fair characterization of anything that Jack Block has said?

Mr. LEGGETT. I do not believe so. I believe that the Secretary's statement—and it is contained in our statement this morning—is not that we cannot maintain a no net cost program, because we believe we can. We believe it would be simpler and more assured if we had some more flexibility in the price-support formula.

The CHAIRMAN. Right. And if we have the freeze and that sort of thing?

Mr. LEGGETT. That would be the same sort of thing.

The CHAIRMAN. So what we are talking about is the stability of the program, assuming the enactment of the legislation that we are now considering.

Mr. LEGGETT. That is correct.

The CHAIRMAN. Fine.

Mr. LEGGETT. Mr. Howland does not have a statement. He is here to answer questions. We just had one prepared statement.

The CHAIRMAN. Very well.

Dee, if you want to go ahead and just sort of tell them to tarry while I ask one or two questions, then we will come over.

Senator HUDDLESTON. Fine. I will do that, Mr. Chairman.

The CHAIRMAN. We have three votes back to back, which means that we will not have time to come back and forth. In your statement, you did say that you favored the freeze and price supports for 1983 and 1984 and possibly 1985, is that correct?

Mr. LEGGETT. Yes, sir.

The CHAIRMAN. You did say that you—you just repeated that you favor more flexibility for the association which managed the price-support program and the use of the assets of the no net cost fund?

Mr. LEGGETT. Yes, sir.

The CHAIRMAN. You do favor the elimination of the double assessment?

Mr. LEGGETT. Yes, sir, the Department favors elimination of double assessment.

The CHAIRMAN. And you do favor increasing the new grower allotment from up to 1 percent to up to 3 percent?

Mr. LEGGETT. Yes, sir.

The CHAIRMAN. Very well.

George, since I have a pretty good voting record, I am going to ask you to take over. I have some questions here that I would like to ask for the record.

Mr. DUNLOP. Yes, sir. Mr. Chairman, our options here, in terms of these votes, three back-to-back votes, is either to recess this

meeting now until about 11:15 or to proceed in the fashion you have described.

The CHAIRMAN. Well, I do not want to do that to the people who have come great distances, George, to be a part of this record and to hear the testimony, and we will just do the best we can. I will come back and forth, and in the meantime, we will make you an honorary Senator, you and Carl Rose, and if you two gentlemen will ask the questions that I have prepared here, and I am sure Dee Huddleston has prepared, we will get back just as quickly as we can.

When that has been done, call the next panel, and we will be back.

Mr. DUNLOP. Yes, sir.

The CHAIRMAN. With your indulgence, ladies and gentlemen, we will take leave.

Mr. DUNLOP. Well, I think the understanding that we have is that we will proceed in this informal fashion of taking additional testimony from and asking questions of witnesses that Senator Helms has determined for each panel. These are not questions that are being asked on behalf of me, but rather on behalf of the chairman.

I think it is his intention that all members of panels should feel like they can respond to his questions, each as they would care to.

The first is relating to the effect of the price-support freeze. Is it your assessment that the price-support freeze will make U.S. tobacco competitively priced?

Mr. LEGGETT. It will certainly move, Mr. Dunlop, in that direction. Our computations show that the price freeze would extend not just 2 years but probably into 1985 as well at $1.699.

Mr. DUNLOP. Mr. Howland, do you have any response?

Mr. HOWLAND. I would agree with Hoke that it will make our tobacco more competitive. We do not think it will reverse the long-term trends, but it will certainly improve conditions in both the world and domestic markets.

Mr. DUNLOP. What is your understanding of the amount of the 1983 crop which is likely to be acquired by Stabilization or the associations if we are talking about burley if the freeze is applicable for 1983, and what about it if it is made applicable for the first time in 1984, rather than in 1983?

Mr. LEGGETT. Mr. Dunlop, we do not think that a price freeze will solve all the problems in 1983, that it probably will not keep a lot of tobacco from going under loan that would go under loan if we did not have a price freeze, but we think that it would postpone improving the situation a year down the line, if you waited until 1984, and we may have so much tobacco under loan from 1982, 1983, and then 1984, that the program might be self-destructing and the tobacco producer assessments might be higher.

Mr. HOWLAND. I would concur with that.

Mr. DUNLOP. The Senator notes here that he has an additional question on this subject. He says, "With a price-support freeze, how much more tobacco would have to be produced and sold for the farmer to come out with the same net dollars in terms of pounds?" Do you have any——

Mr. LEGGETT. Let's see. Bob, do you have any independent calculations? This is Dr. Miller with our Analysis Division.

Dr. MILLER. Would you repeat the question?

Mr. DUNLOP. Dr. Miller, the question is: With a price-support freeze, how much more tobacco would have to be produced and sold for the farmer to come out with the same net dollars?

Dr. MILLER. With a freeze, the support would be 5 percent lower than it otherwise would be. If there were no other changes there would have to be 5 percent additional sales for the same gross return; since there would be additional expenses, there might be some variation here.

The difficulty in making this comparison is what effect this would have on the long-term trends. It is difficult to get an impact this season, simply because a great many firms would have made buying plans.

But it is a question, for the committee and for the persons speaking today to consider, not only for 1 year, but for an accumulation of several years.

Mr. DUNLOP. The next question the Senator would pose to members of the panel would be: In your judgment, are there measures other than a freeze and price supports which will be necessary or desirable to make U.S. tobacco competitively priced, or which will reduce the amount of tobacco which might be acquired by the associations?

Mr. LEGGETT. There may be ways in which to use no cost funds other than as a set-aside to cover losses when their crop is ultimately sold, such as increase exports and possibly even increase the domestic use of U.S.-grown tobacco.

Mr. DUNLOP. That are being contemplated by the——

Mr. LEGGETT. The Manager of Stabilization I am sure will have further comment on those, as they have done some background work.

Mr. DUNLOP. In your judgment, what is the likelihood of a quota cut and/or an increase in the no net cost assessment for the 1984 crop?

Mr. LEGGETT. Without the freeze, undoubtedly we will have to have both, because as the accumulation of stocks continues to build and interest and carrying charges continue to grow, we would probably have to have changes both in quotas and contributions, I mean, an increase in producer contributions and a decrease in quotas.

We may possibly avert some of this if we have a freeze in 1983.

Mr. DUNLOP. The next set of questions relates to the effect of the restrictions on the use of allotments that are contemplated in this legislation. What is your recommendation to the committee regarding any exceptions to the prohibitions of lease and transfer which would begin in 1987? That is, under what circumstances or conditions, if any, would you recommend a continuation of the practice of lease and transfer after 1987?

Mr. LEGGETT. Our position is that the only time that lease and transfer be permitted would be in those cases where disaster provisions of the law would apply.

Mr. DUNLOP. It has been suggested that elimination of lease and transfer after 1986 may make it difficult for some lessees to have

assurance of access to the quota that has been growing in recent years. Would the establishment of an account within Stabilization provide for something like credit buy-downs for certain eligible growers be a feasible resolution of that problem?

Mr. LEGGETT. We do not have a position on that, because we have not considered it.

Mr. DUNLOP. The next set of questions, just for the benefit of other witnesses who may be called, wouldn't apply to you all, either, because I do not think you are in a position to speculate about things. There are as many ideas about how to run the tobacco program as there are tobacco farmers, but in your judgment, is there any matter of compelling consequence that has not been addressed in this package of legislation? If so, what is it, and what is your precise recommendation as to how it ought to be handled?

Mr. LEGGETT. We do not have any. We think there may be some technical amendments that might be made to the no cost bill that we would like to present later.

Mr. DUNLOP. Senator Huddleston indicated that he had a question for Mr. Leggett and then one for Mr. Howland. This is for Hoke: Are you in a position today to indicate what the impact on the burley tobacco market would be if Flue-cured loan rates are frozen for 2 and perhaps 3 years, and burley loan rates are not maintained at a level which will preserve the current price differential between the two?

Mr. LEGGETT. Certainly it will put burley at somewhat of a difficult position, because while burley is already supported at a higher loan rate than this Flue-cured, this would greatly widen the gap to something like 25 cents a pound, on an average, by 1985.

Mr. DUNLOP. And then, Mr. Howland, Senator Huddleston would like to have you address this question: It is my understanding that an initial review of subsidies and export incentives provided by foreign countries for the production, marketing and export of tobacco and tobacco products has prompted a more detailed review. Has this second review been completed, and are your findings available, and would you be so kind as to provide a copy to the committee?

Mr. HOWLAND. Yes; the review has been completed, the findings are available, and we would be happy to provide a copy.[1]

Mr. DUNLOP. We will make that a part of the record.

Mr. HOWLAND. Very good.

Mr. DUNLOP. Well, that constitutes the questions that the Senator has for this panel, and before he left he indicated that he would like us to call another panel to come and testify.

We appreciate your coming.

The next panel I think we will call, inasmuch as Senator Huddleston, I think, would like to be here for the people who have come from the burley areas, in particular—if we can indulge the witnesses, to call the first Flue-cured panel that we have listed, and if you gentlemen would come forth at this time: John Sledge, president of the North Carolina Farm Bureau, or his representative, Bill Little or Atlas Wooten.

Mr. LITTLE. We both will come.

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[1] The material is retained in the committee files.

Mr. DUNLOP. You are both welcome. And Carlton Blalock, executive secretary, North Carolina Tobacco Growers Association; Jim Oliver, master, North Carolina Grange. Is Mr. Oliver here today?

VOICE. No, George. He was flying in this morning. I do not believe his plane has arrived yet.

Mr. DUNLOP. Bob, would you care to——

VOICE. I would rather not.

Mr. DUNLOP. Very well. Howard Moye with the United Tobacco Growers.

We are going to have a second panel of Flue-cured witnesses, as well.

Mr. Nash indicates it would be most convenient to him if he would come at this time, and I am sure we would be delighted to do that. Just make yourself comfortable.

You know, I would say that this is a little unusual for a member of the staff, and I hope that people do not perceive that I am conducting this hearing. The idea is that a lot of you have come so far and come on short notice, and it is important that we establish this record and that these questions be responded to.

I think that all of you, of course, have continuing access to Senators Helms and Huddleston and other members of this committee, and I hope the record will show that both of these Senators are very interested in hearing you all, and it is because of these back-to-back votes which have come up that we are using this unusual procedure, and we will proceed on that basis.

Bill Little, representing the North Carolina Farm Bureau Federation.

Bill, if would make your statement and any remarks that you would care to make about this package of legislation, your prepared statement will be inserted in the record.

STATEMENT OF WILLIAM E. LITTLE, COMMODITY DIRECTOR, NORTH CAROLINA FARM BUREAU FEDERATION, RALEIGH, N.C.

Mr. LITTLE. Thank you very much, Mr. Dunlop.

I am William E. Little, commodity director of the North Carolina Farm Bureau Federation with State headquarters in Raleigh, and we certainly appreciate this opportunity to appear here today and present our statement.

Accompanying me today is Atlas Wooten, chairman of the North Carolina Flue-Cured Tobacco Committee, a native of Pitt County, N.C., the largest Flue-cured producing county in North Carolina. And I might say that also the Flue-Cured Tobacco Committee that he heads, there are 52 members in this statewide committee. Ninety-eight percent of them are owners and producers of tobacco allotment, and they lease in almost as much as they own and produce, and I think this indicates how representative they are of producers in North Carolina.

I would like at this time, Mr. Dunlop, to present what we refer to as our oral testimony, and I also have for the record a more detailed statement that we would like to enter in the record.[1]

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[1] See p. 109 for the prepared statement of Mr. Little.

I would like to speak to the issues that have been discussed in the House and the Senate thus far, which have been referred to as the principals.

No. 1, stabilizing the price support that we have referenced, we recommend that, beginning with the 1984 crop year, the price support level for Flue-cured tobacco be stabilized at the 1983 level for 1984 and 1985 and beginning in 1986, if the current price support formula computes at 5 percent or less, as a 3-year moving average of prices paid for farmers, including wage rates, interest, taxes and so forth, the price support level would be stabilized for 1 more year, 1986, after which the provisions of the No Net Cost Tobacco Program Act of 1982 would be implemented, which provides for an annual increase of 65 percent to 100 percent of the 3-year average, as determined under the regular formula.

However, if the price support formula index is 5.1 percent or more in 1986, the No Net Cost Tobacco Act of 1982 would then be implemented for 1986 and future years.

We are aware that U.S. Flue-cured tobacco must be priced as competitively as possible to remain a viable supply index for domestic markets. We must at the same time help the U.S. grower safeguard his financial stability.

Under former law, price supports were raised to keep pace with inflation. Under the no net cost program, there is authority to limit future changes to 65 percent of the formula increase. This means that support levels will rise about 2 percent for every 3-percent increase in the Farm Cost Index. If the price support level is stabilized for 2 years or more, and the Secretary uses his authority to limit future changes to 65 percent of the formula increase, the future price support level will be substantially below the cost of production.

At this point, I would like to enter in the record three tables that have been prepared by Dr. Joe Chappell and his associates from North Carolina State University, and the first table, No. 2, that deals with the projected price support for Flue-cured tobacco under the current program with the Secretary using the current authority of making a reduction of 35 percent per year, and looking at the inflationary rate of 4, 6, 8, and 10 percent, if we didn't make any changes at all in 1987, based on 1982 prices, the 4-percent inflation, $1.66, up to 10, $1.42.

[Tables 2 and 3 follow:]

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TABLE 2: PROJECTED PRICE SUPPORTS FOR FLUE-CURED TOBACCO, BASED ON 65% OF FORMULA INCREASE AT SELECTED RATES OF INFLATION

	RATE OF INFLATION (%)							
YEAR	4	6	8	10	4	6	8	10
	CURRENT DOLLARS				1982 DOLLARS			
	(Dollars Per Pound)							
1982	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70
1983	1.79	1.79	1.79	1.79	1.72	1.69	1.66	1.63
1984	1.85	1.86	1.87	1.88	1.71	1.65	1.60	1.55
1985	1.90	1.93	1.96	1.99	1.69	1.62	1.56	1.50
1986	1.96	2.02	2.07	2.13	1.68	1.60	1.52	1.45
1987	2.02	2.10	2.19	2.29	1.66	1.57	1.49	1.42
1988	2.08	2.20	2.32	2.46	1.64	1.55	1.46	1.39
1989	2.14	2.29	2.46	2.65	1.63	1.52	1.44	1.36
1990	2.20	2.40	2.62	2.86	1.61	1.50	1.42	1.33
1991	2.26	2.51	2.78	3.09	1.59	1.48	1.39	1.31
1992	2.33	2.63	2.96	3.33	1.57	1.47	1.37	1.29
.	.	.	.	.	.	.	.	.
.	.	.	.	.	.	.	.	.
.	.	.	.	.	.	.	.	.
1997	2.72	3.33	4.09	5.05	1.51	1.39	1.29	1.21

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TABLE 3: PROJECTED PRICE SUPPORTS FOR FLUE-CURED TOBACCO, 2 YEAR FREEZE BEGINNING IN 1983, AT SELECTED RATES OF INFLATION

YEAR	RATE OF INFLATION (%)							
	4	6	8	10	4	6	8	10
	CURRENT DOLLARS				1982 DOLLARS			
	(Dollars Per Pound)							
1982	1.70	1.60	1.70	1.70	1.70	1.70	1.70	1.70
1983	1.70	1.70	1.70	1.70	1.63	1.60	1.57	1.54
1984	1.70	1.70	1.70	1.70	1.57	1.51	1.46	1.40
1985	1.75	1.77	1.79	1.81	1.56	1.49	1.42	1.36
1986	1.80	1.85	1.90	1.95	1.54	1.47	1.40	1.33
1987	1.86	1.94	2.02	2.11	1.53	1.45	1.38	1.31
1988	1.92	2.03	2.15	2.28	1.52	1.43	1.36	1.29
1989	1.98	2.13	2.29	2.47	1.50	1.42	1.34	1.27
1990	2.04	2.24	2.45	2.68	1.49	1.40	1.32	1.25
1991	2.11	2.35	2.61	2.91	1.48	1.39	1.31	1.23
1992	2.18	2.46	2.79	3.16	1.47	1.38	1.29	1.22
.	.	.	.	.	.	.	.	.
.	.	.	.	.	.	.	.	.
.	.	.	.	.	.	.	.	.
1997	2.56	3.16	3.92	4.87	1.42	1.32	1.24	1.17

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Mr. LITTLE. So I want to indicate, even under the current law, what would happen.

Now, if we project the price support with a 2-year freeze beginning in 1983, if we have a 4-percent inflation, we freeze it at $1.699, or $1.70 in 1983 at the 1982 level, in 1987, even at 4 percent, it will be $1.53 in 1982 prices, 8-percent inflation, $1.38.

And then table 4 that I would like to enter in the record, if the 2-year freeze begins in 1984, we looked at 4-percent inflation in 1987. Relative to the 1982 price, it would be $1.56 a pound, 8 percent, $1.38, 10 percent, $1.30.

[Table 4 follows:]

TABLE 4: PROJECTED PRICE SUPPORTS FOR FLUE-CURED TOBACCO, 2 YEAR FREEZE, BEGINNING IN 1984, AT SELECTED RATES OF INFLATION

	RATE OF INFLATION (%)							
YEAR	4	6	8	10	4	6	8	10
	CURRENT DOLLARS				1982 DOLLARS			
	(Dollars Per Pound)							
1982	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70
1983	1.79	1.79	1.79	1.79	1.72	1.69	1.66	1.63
1984	1.79	1.79	1.79	1.79	1.65	1.59	1.53	1.48
1985	1.79	1.79	1.79	1.79	1.59	1.50	1.42	1.34
1986	1.84	1.87	1.90	1.93	1.57	1.48	1.40	1.32
1987	1.90	1.96	2.02	2.09	1.56	1.46	1.38	1.30
1988	1.96	2.05	2.15	2.26	1.55	1.44	1.36	1.28
1989	2.02	2.15	2.29	2.45	1.54	1.43	1.34	1.26
1990	2.08	2.25	2.45	2.66	1.52	1.41	1.32	1.24
1991	2.15	2.36	2.61	2.89	1.51	1.40	1.31	1.22
1992	2.22	2.48	2.79	3.14	1.50	1.38	1.29	1.21
.	.	.	.	.	.	.	.	.
.	.	.	.	.	.	.	.	.
.	.	.	.	.	.	.	.	.
1997	2.60	3.18	3.92	4.85	1.44	1.33	1.24	1.16

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Mr. LITTLE. Of course, we know we have had in the recent decade, 6- to 8-percent inflation.

The No. 2 point deals with the double assessment. We recommend that beginning in 1984 the assessment of all poundage quota be paid at time of marketing on the poundage marketing. We think that was the intent of the act of 1982, and we feel that that should be implemented in that manner in 1984.

Moving on to the third point, increasing new tobacco grower percentage, the proposal to increase from 1 percent to 3 percent, we recommend that no more than 3 percent of the national quota be set aside as a reserve for new growers, and we are supportive of this effort.

No. 4, granting the Flue-Cured Tobacco Cooperative Stabilization Corp., discretionary authority for assessment funds, we recommend that with the approval of the Secretary, the Stabilization Board be authorized to utilize and manage the assessment funds in such a manner as to reduce stocks and operate the no net cost program at no cost to the grower, and we realize and are aware that this will have to be implemented legislatively.

The No. 5 point that we would like to speak to is the cash renting and the sharing the risk of the lease and transfer program. We are aware that it is desirable to eliminate the public and the private visibility of cash leasing and the misconceptions being generated. This appears to us a most difficult area to legislate. We would encourage any method or procedure that can be implemented in a practical way to promote sharing risk rental plans.

A certification program, tied in with other certifications, may be worthy of consideration.

Now, in reference to the future of the lease/transfer program, we make the following recommendations:

We recommend that, beginning in 1984, the lease/transfer program for Flue-cured tobacco be phased out by the crop year 1987. This 3-year period should provide all allotment holders who lease off the farm an ample opportunity to share in the production or sell allotments within the county to active tobacco growers or produce on the farm.

This action is not intended to affect the leasing or rental arrangements between the allotment holder and grower or renter where the tobacco quota is grown back on the farm where it is assigned. Leasing away off the farm would be terminated after 3 years under this proposal.

No. 6, we would like to also surface another area that we are very much concerned about, and that is the impact of the Caribbean Basin Initiative upon tobacco, which is being discussed, did last year, and it is now being proposed by the administration. We feel that the Caribbean Basin Initiative now being considered by Congress presents problems of considerable magnitude for U.S. tobacco growers unless effective safeguards or exemptions are incorporated in the legislation to adequately protect their interest.

Duty free access to U.S. markets for a 12-year period could adversely affect the no net cost tobacco program. We are concerned that tobacco from outside the Caribbean Basin countries will be semiprocessed and classified as manufactured or not manufactured, not specially called for under the tariff item, No. 7080, and export-

ed to the United States duty free, and we feel that this is an area that very little attention has been paid to, and we feel that it certainly will encroach upon our market in a very bad way.

No. 7, the mandatory sale of certain Flue-cured tobacco acreage allotments and marketing quotas, and this speaks to the act of 1982. We think that there is a misunderstanding of this particular provision of the mandatory sale of allotments, and we would make this statement regarding this particular area, and it may be appropriate to incorporate some legislative changes to correct this area.

We were supportive of the legislation in 1982 that would cause certain governmental entities, public utilities, and municipalities to divest themselves of tobacco quotas. There is some concern being expressed that a mandatory sale could apply to certain estates, trusts, and other entities not mentioned in the act of 1982. We feel that the definition being proposed in the Federal Register dated April 22, 1983, regarding significantly involved—that 50 percent of its gross income from the management or use of land for agricultural purposes is being interpreted incorrectly.

We feel that significantly involved can be much less than 50 percent of the gross income from agricultural purposes or even with the use of nonmonetary criteria.

We do feel that as publicity is being given to this particular area now, there is growing concern that it reaches beyond the meaning of the act of 1982.

We are aware that there have been many mandatory sales, they are continuing, and one of the efforts or purposes of the act of 1982 was to place in the hands of the actual producers of tobacco, and it is interesting to note in North Carolina, in our prepared statement, Mr. Chairman, we do go into a little detail, but I would like to point out just a light summary that I received yesterday in North Carolina from just three counties.

In Wake County, one of the largest municipalities, Carolina Power & Light Co., has divested itself of all of the allotment; 368 farms have sold; 708 acres have been sold; 1,202,000 pounds. Guilford County, 437, and even in Pitt, 331,000.

I think this indicates the transition that is taking place under this particular act, and it is moving in the hands of the producers.

Mr. Chairman, at this point I would like to call upon Mr. Wooten, our chairman, for any supplementary remarks that he wishes to make.

The CHAIRMAN. Atlas, we are glad to have you.

Mr. WOOTEN. Thank you, Senator.

The CHAIRMAN. Thank you, Bill.

STATEMENT OF ATLAS WOOTEN, CHAIRMAN, NORTH CAROLINA FLUE-CURED TOBACCO COMMITTEE, PITT COUNTY, N.C.

Mr. WOOTEN. Well, Bill, I think you have covered very well the consensus of our tobacco committee. We find ourselves in a different position somewhat on the price supports, when it will begin, and I think this is due largely to the extreme expense that some of the individuals went through in acquiring the quota for this year. Quite a few agreed to pay the double assessment, and a price freeze

on top of the assessment, the double assessment, is going to amount to disaster for some of them.

I realize they were very unwise in doing this, but still it is a problem that they are confronted with and one that they are working with. I do think that is a contributing cause toward our asking for 1 more year.

Also, the fact is that with the extreme—with the 35-percent slowdown in the price support that we have agreed to accept under the no net cost program and the assessment which amounts to approximately a 9½ cent average per pound this year, it pretty well amounts to a freeze this year, and to go back to $1.69 would be something amounting to somewhat more.

I do want to say that the North Carolina Farm Bureau does support the causes of tobacco. We realize that the price of tobacco has grown extremely high, and that the time is here when we must do something about it. But the feeling was by our committee—and, as Bill said, these are growers, primarily—that they needed another year to get out of the obligations they have assumed for this year.

But I can promise you one thing, that regardless of when and how, when the bill comes on the floor, North Carolina Farm Bureau will be in there supporting it.

The CHAIRMAN. Thank you very much.

I note that the 5-minute bells have sounded.

Carlton Blalock, a longtime friend and a distinguished North Carolinian, is executive secretary of the North Carolina Growers Association. He is next on the agenda, and I sincerely regret that I am going to have to leave right now, or otherwise miss a vote, but you may proceed.

George, you will take over in my absence. Perhaps Senator Huddleston will be back in a few moments, but we will do the best we can. I apologize for the circumstances, but we had no earthly idea that we were going to be this way when we scheduled these hearings. You can not tell about this place.

But we are glad to have you, and will be glad for you to proceed.

Mr. BLALOCK. Thank you, Senator. We appreciate it.

I filed a complete statement with the committee, and I will not read the statement but attempt to excerpt from it and address some of the questions, George, that you indicated the Senator had for the panel members.[1]

Mr. DUNLOP. Without objection, your statement will be inserted into the record.

STATEMENT OF T. CARLTON BLALOCK, EXECUTIVE VICE PRESIDENT, TOBACCO GROWERS ASSOCIATION OF NORTH CAROLINA, INC., RALEIGH, N.C.

Mr. BLALOCK. Our association's members are extremely concerned about the future of our program and believe we have to make some constructive changes if we are going to save the program. We also believe that our members are ready to accept some changes, and we base that on over 3,000 surveys that we have had with our members during the past 6 months.

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[1] See p. 115 for the prepared statement of Mr. Blalock.

We think the first step in making these changes is a price freeze for 1983 at the 1982 level. We wish this could have been made earlier before many farmers locked themselves in on high lease rates, as Mr. Wooten has reflected, but we also do not believe we can afford to wait another year to send this signal out to our customers around the world that we do intend to become price/quality competitive.

We know that freezing price supports for 1 year will not get us back in the world market. We are not sure 2 years will be enough. For this reason, we would prefer that prices be frozen in 1983 at the 1982 level, and beginning in 1984 that the Secretary be given discretionary authority to set the price supports.

Now, we recognize the reluctance to give that kind of authority to the Secretary, but we believe with some safety net provisions and some limitations around which he would have to operate, it could be an arrangement that would give us the kind of flexibility and avoid the possibility that 2 years from now or 3 years from now, we will be sitting in this same room considering legislation and have to go back to Congress again. We do not believe we can go to that well too many more times.

We are also concerned over the announced proposal for a 2-year freeze on the impact that that may have on buying company decisions for 1983. Knowing that they can buy that tobacco in 1984 at the same price may have some influence on their decisions and further compound our problem.

Our growers have said to us, given a choice between accepting slightly lower prices and the continuing quota cuts, they will accept the lower prices.

Our association was among the first to object to the double assessment, and we remain opposed to it. We also believe that the double assessment should be eliminated in 1983, as was indicated earlier in our discussions, because this would provide some relief to those growers who have gotten locked into relatively high fixed release rates, who also paid that double assessment, in most of the cases, and the calculations would indicate that the tradeoff on price freeze and elimination of double assessment would be about the same, and this would be some relief.

We have no objections to the increase from 1 to 3 percent for new growers. We would, however, want to insist that the current requirements to qualify for a new grower not be relaxed and be continued as they are.

From the beginning, our association has been opposed to the elimination of lease and transfer. We are aware of some of the political liabilities associated with this phase of our program, and obviously this has to be given due consideration. But at the same time we recognize there have been some very positive benefits from lease and transfer. It has allowed the development of cost effective production units.

The average allotment, if you noted the figures presented by USDA, is quite small. In many of our Flue-cured counties, the average allotment is less than an acre-and-a-half in size, and in burley, less than a quarter of an acre in size. Production units of this size are highly inefficient, and at a time when production costs ought to

be of paramount interest to our program, we ought not to take actions that will be counterproductive.

We support the concept of requiring the allotment holder to share in the risk of producing the tobacco. We think the penalties will need to be severe and some monitoring efforts made to insure that under the table type payments do not occur.

If it is the judgment of the congressional leadership of tobacco that more restrictive limitations have to be placed on lease and transfer in order to pass legislation, then you will have to be the judge of that. Then we would ask that this transition be a gradual one. We would request that as a minimum, lease and transfer be extended to 1989, and, again, we would prefer to give the Secretary of Agriculture the authority to continue it if he deems at that time it is in the best interest of the program.

There are some modifications you may want to consider. An exemption on small allotments for a longer period of time perhaps would help both growers and allotment holders.

We support reasonable efforts that over time are going to encourage allotments to move into the hands of growers, but this cannot occur too fast or allotment holders will suffer because of a depressed market.

A young grower, producing 40 acres of tobacco through lease and transfer who owns little or no allotment or land could be looking at an additional indebtedness of in excess of $250,000 and for most of these young people, that kind of financing is not available.

A second option that we believe has merit would be to continue to allow the transfer of tobacco allotments by an operator of two or more farms where that operator also produces all of the row crops on those farms. A farmer can afford to go 10 miles and grow 10 acres of corn or soybeans, but he cannot go 10 miles to grow one acre of tobacco. This provision would allow the continued efficient use of many consolidated and centralized production units that have developed in our State.

Mr. Chairman, our association represents both Flue-cured and burley, and our burley members support these changes that I have discussed. There are, however, some further modifications that our burley growers would like to see included in this legislation or through administrative action.

First, our burley growers, Senator Huddleston, would like to be allowed to sell allotments in the same manner as Flue-cured. Second, they would like the provision to be able to retain allotments by designation when selling a portion of the farm, the same as allowed in Flue-cured, so long as they meet the requirements of two acres of tillable land for each acre of allotment. Third, they would like to have elimination of fall lease and transfer. Fourth, they want one system of selling tobacco at the market, whatever that is.

In closing, we would again like to stress to the committee the seriousness of the situation and the urgency of taking action for the 1983 market. Our members have essentially said to us, "Do whatever it takes to avoid the continuing cuts of quota that we have experienced in the past years."

We think the proposed legislation, with the modifications that we have suggested, would be a step in that direction.

Thank you very much.

Senator HUDDLESTON. Thank you.

Are there others on the panel who have not commented?

Mr. LITTLE. We have finished.

Senator HUDDLESTON. You have already finished. Does anybody have any comments?

Mr. DUNLOP. No, sir, I believe that Mr. Nash, with the Georgia Farm Bureau, the president, and Howard Moye, with the United Tobacco Growers, have not yet spoken.

Senator HUDDLESTON. Fine. We will be glad to hear from you, then, at the present time.

Without objection, your statements will be inserted into the record.

STATEMENT OF HOWARD D. MOYE, JR., EXECUTIVE VICE PRESIDENT, UNITED TOBACCO GROWERS ASSOCIATION, WENDELL, N.C.

Mr. MOYE. Thank you, Senator Huddleston.[1]

I am glad to be here on behalf of the United Tobacco Growers to voice the sentiments of tobacco growers on this situation. We happen to have that as a requirement for membership. We are active growers.

Since we established our tobacco cartel or program back in the thirties, it was at that time we produced 83 percent of the world exports of Flue-cured. Now, our share has decreased to less than 20 percent. During this period of time, the volume of world exports increased 400 percent. We participated in an act of great increase in market.

Now, technology is widely dispersed. Brazil, India, Korea and many others are very adept competitors and well positioned for further expansion. Market erosion has been very rapid since 1975. We have lost approximately 50 percent of our world Flue-cured market.

The projections are with the present type of program, we will lose another 40 or 50 percent in the next 5 years. This is predictable in a cartel. With market erosion and other countries free to produce, they will take our markets.

Of course, in our situation, we have about 80 percent, give or take a few, that own quotas to market tobacco, but do not farm, so they have not yet felt the pain or pressure of market erosion because of the ever-increasing lease rates.

But today, quota is really not a good investment for anyone. In fact, quota values have decreased about 75 percent since 1975 due to cuts and lower capitalization rates because of uncertainty about the program.

Well, the U.S. does produce still the quality standard of tobacco in the world, Flue-cured tobacco standard. We maintain a stable price, and we encourage foreign tobacco production. There is no futures market against tobacco anywhere in the world, but you have U.S. standard, U.S. stabilizing policies. You go anywhere else in the world and raise tobacco and you have that. You know what you

[1] See p. 117 for the prepared statement of Mr. Moye.

have to do. You just raise it and sell it a little bit cheaper, and we readily surrender our market shares.

The Common Market and other nations isolate their home markets and subsidize exports. Brazil and other countries completely protect their domestic market in a mercantilist fashion, selling tobacco and taking our markets, and in fact today this country is importing tobacco.

We believe that domestic content legislation could be justified, or some other trade barrier to protect our markets until we might make these other nations compete more practically.

Complete deregulation of tobacco production would benefit the U.S. tobacco growers.

The price instability and propensity to overproduce is a hazard, but I guess the simplest thing to say about free market is that it is hard but it is fair. It treats everybody alike, and it does not cost a lot of money. It cleans itself.

Well, we do, of course, desire—I think after 50 years of price stability, we desire—the majority of the growers desire some sort of price stability. That does require that we have a supply control program. To have a supply control and to halt market erosion, quota cuts—the very idea that a farmer could be mandated out of his lifelong occupation by the reduction in quotas to market tobacco should be completely alien to every American. We really must merchandise tobacco so that there is always a market in the near future.

The only way you can do that with a supply control program without protection for your domestic market is to lower price supports to a convenient level. I agree with Dr. Blalock's statement on that. His group and my group, and I think every farmer in America, would say yes to much preferring to operate with lower profit margins, do what we have to do to stop these quota cuts. This is what we have to do.

The second alternative, which would provide stability, as I described before, would be to reduce the amounts of quota equal to the domestic consumption. The domestic market is the only market you can protect and capture. And you would have to bar subsidized imports. These imports are subsidized, for the most part.

U.S. tobacco farmers are as cost competitive as any tobacco farmers in the world, and with crop incentives can produce the best quality still.

So one benefit of this would be that excess profits that we might get from domestic consumption would be useful to U.S. farmers to aid them in competing against these foreign, Government-subsized competitors.

Well, considering the past mismanagement of the U.S. program, one cannot blame the merchants and the manufacturers for seeking to develop more affordable sources of supply. International tobacco dealers and domestic cigarette manufacturers have, for instance, gone to Brazil. I understand that one manufacturer has 90 to 100 technicians there teaching those people to raise tobacco. Their production has expanded dramatically. On a business basis, you can't blame them for doing that.

But the demands that these manufacturers make on our tobacco State Members of Congress, when it comes time to fight a smoking

and health bill, or to beat down a tax issue, are completely inconsistent with the lack of support they have given the U.S. tobacco farming industry. This great increase in imported tobacco has inflicted a lot of financial harm on these U.S. growers.

We talk about a tax, it makes the papers, and you people valiantly try to defeat a new tobacco tax. They talk about the possibility that they will reduce cigarette consumption 7 to 10 percent. Only one-half of that might be Flue-cured; you're talking 3 to 5 percent. And then we have the 10 percent across the board quota projections, about that many, each year for the next 4 or 5 years.

This program and this import tobacco has done a lot more to our farmers than taxes have.

Recently, Fortune magazine quoted a Tobacco Institute spokesman as saying, "The growers scratch our backs and we scratch theirs." Well, the political trades that are made here are detrimental to the interests of non-quota-owning citizens of tobacco States that become necessary to move this legislation and to fight smoking and health. I think it must be economically justifiable to the constituents of these tobacco States. I strongly believe that the tobacco farming industry and the business infrastructure that services it and the mainstream economies that depend on it for their survival should have much more political clout here in Washington, D.C., than would the profits of the cigarette manufacturer. I think the tobacco State Members of Congress should respect that. They should vote for the best economic interests of the majority of their constituents and they are going to find those on Main Street and in those tobacco patches of these tobacco-producing States.

In summary, deregulation will benefit my constituents, tobacco growers, but it is fair. Some of them are financially weak now after these years of unprofitable operation and paying these high lease rents, but I think there is a feeling among them that they would be a lot prouder to fail in the real world than they would to be mandated out of business by the mismanagement of a tobacco program that is supposed to be helping them.

Deescalation of support prices—that is what needs to be done, and it is going to destroy the value of quota, and a lot of retired farmers—we are concerned for them—that have invested in this program in good faith, and they are dependent upon the income from it for their retirement, but their income today is extraordinarily high. It is consistent with the confiscation of almost all the profits of tobacco farmers, and certainly they realize that it is an untenable position and it is going to be a short-run position.

It is going to be harsh if we have to reduce our price supports to the level that we are competitive in world trade. There will not be very little, if any, profit left to pay for rent or even to finance the purchase of equipment. Therefore, quota value will be very low.

The best alternative we see is what I call a phased-in deregulation. We could go ahead and reduce our quotas to domestic consumption, justifiably, I think, considering what our competitors do. We could direct tariff barriers or do whatever we had to do to cause our domestic manufacturers to maybe jump on it. Maybe it is time for them to pay their dues, let them buy this domestic produced tobacco for domestic cigarette consumption, and allow unlimited production, unrestricted free market production of exports.

This would maintain the value of quotas. We could deescalate the support prices. In maybe 5 years or so, we could deregulate this industry completely, and it would be much less shock for these people.

Well, that is on price, and I will right quick run through the other points.

On price support freeze proposal, that alone is unfair, of course, to these farmers that pay lease rents. It is going to destroy some of them, maybe. I do not know. It is a pretty thin margin, when another 7 or 8 cents will do you in, but some of them might be in that embarrassing position.

I believe they could survive that if some meaningful legislation was accomplished that would give them and their creditors, their lenders—give them hope for the future. But that alone, we would have to oppose without a complete reformed program.

On elimination of the double assessment, we favor it.

Increasing quotas for new growers, we favor.

On Stabilization's expanded use of no net cost funds, we favor that.

On abolishing cash rents, we favor it.

On ending lease and transfer in 1986, we favor ending lease and transfer. We would like to see it accomplished as early as 1984. However, one more thing about that is that when you force someone who leases out their quota and depends on lease and transfer to sell, you are forcing that person who has been leasing in that program to buy.

The average tobacco farmer who has been paying these high lease rents is not financially able to purchase quota, and quota is not collateral with DCA in North Carolina. They do not consider that as collateral.

I say that we should end lease and transfer.

We should cause nonproducers to sell their quota, but we need to structure the sale of quota, perhaps provide for an installment sale over a 3- to 5-year period, handle it through ASCS and be sure that in the redistribution of quota that superfarms are not created, that the small family farming has a fair chance to buy quota.

Thank you very much.

Senator HUDDLESTON. Thank you very much.

Mr. Nash, without objection, your prepared statement will be inserted in the record.[1]

STATEMENT OF ROBERT L. NASH, PRESIDENT, GEORGIA FARM BUREAU FEDERATION, MACON, GA.

Mr. NASH. Thank you, Senator Huddleston.

I appreciate the opportunity to move up on this panel, even though I am not sure that I can compete with all this North Carolina crowd, but because of a travel schedule, we appreciate the opportunity for Georgia to go ahead and make a comment on the program.

I am Robert L. Nash. I am president of the Georgia Farm Bureau Federation, a general farm organization, as you know, and we rep-

[1] See p. 119 for the prepared statement of Mr. Nash.

resent some 147,000 members, of which some 25,000 are tobacco farmers.

I appreciate the opportunity to appear here before the Senate Agriculture Committee to make comments concerning the issue of the no net cost tobacco program. Georgia Farm Bureau feels that modifications should be made to present a tobacco program to better serve the grower and also to place the U.S. Flue-cured tobacco back in the world market.

As I read my comments here, I may make some additional comments. Most of the people in Georgia are fully agreeable on some of the changes that we will address here today, and there is no dissension among the growers. We must do something to correct some tobacco legislation in order to save the program.

The assessment is one part of it that we are very much concerned with. Assessment of the no net cost tobacco program has been a problem this year. The intent of the program was for the tobacco farmer to be assessed an amount to pay for the cost of the tobacco program, but, as most of you know, when the producer leased the tobacco for 1983, the allotment holder asked that the assessment amount be paid by the producer. When the producer sells his tobacco, he will pay again. Thus, he will have paid 14 cents this year.

We do not think that this is in the best interests. However, in 1983, most of it has already been paid, and we feel that there should not be any change in 1983, but in 1984 we certainly feel that there should be a change, and when the producer pays at that time, it only should be one assessment.

As far as the funds that are collected from this assessment for the no net cost tobacco funds by Stabilization from the farmer it may be used in any way that Stabilization sees fit, with the approval of the Secretary, to reduce Stabilization stocks in 1982 and following years, with the intention of operating a no net cost program at no cost to the farmer.

Now, this is very difficult, so this means we have to bring about some other changes in the program to do this, but I think that the intent is to get the program where there is not a cost to the Government, but also not a cost to the farmer, if possible.

Stabilization should be treated as any other cooperative operating price support program under regulations issued by the Secretary.

Georgia Farm Bureau is well aware of the lease and transfer problem and would like to recommend that, beginning with the 1984 crop, the cash renting of allotments be abolished. Allotment owners must share in the risk of producing the tobacco crop, even if they lease or transfer.

We feel that beginning with the crop year of 1986, all lease and transfer should be abolished. The holder of any Flue-cured allotment beginning in the 1986 crop year may either grow his allotment himself, as an active grower on the land to which the allotment is assigned, or lease—share in the risk—to one who is an active grower with the allotment to be grown on the land to which it is assigned, or sell the allotment to an active grower in the same county.

We feel that this is necessary if we are going to get hold of the tremendous cost that is coming about by cash leasing of tobacco, and we feel like this would be one way of doing it, in that the people who hold the allotment, if it is grown on that land, they can share in that cost of production. And if it is up or if it is down, then they share a part of that expense.

Georgia Farm Bureau would like to recommend that the loan price for 1983 and 1984 be held at the 1982 loan level. This would allow the U.S. Flue-cured tobacco to be more competitive in the world market, and with the demand for our quality tobacco, the United States could regain its share of the world market.

I might also comment that we are very much concerned that as we move these allotments, that they not be allowed to move into the hands of certain large concerns. We feel that one way that this could be done is based on the tobacco history for that grower. That he only be allowed to purchase allotments up to 100 percent of what he has historically grown, that meaning owned and leased during the past 2- or 3-year period. This would establish them the opportunity to purchase what they need to grow, and it would also prevent the allotment from falling into the hands of certain entities that maybe perhaps are in better financial condition than the individual farmers are today.

With these comments, I would like to say that we appreciate the opportunity to appear here, and I can assure that not only the Farm Bureau people, the tobacco growers in Georgia, but also those of the Tobacco Commission in Georgia and other entities do support this position.

Thank you.

Senator HUDDLESTON. Thank you very much, gentlemen.

Does that include all of you now?

Mr. LITTLE. Yes.

Senator HUDDLESTON. We do have another vote, of course. We will have five bells in just a few minutes.

Let me ask you this. Nearly everybody has suggested that changes be made in the leasing provisions, and even to phasing them out. If we do that, are we running the risk of eliminating some of the efficiencies that leasing has brought to the production of tobacco, and therefore increasing the cost? Is that any concern at all?

Mr. BLALOCK. It is very much a concern of our group, Senator. I spoke to that. I would like to elaborate on it.

Senator HUDDLESTON. Fine.

Mr. BLALOCK. An acre-and-a-half of Flue-cured tobacco is not an efficient production unit. It is not efficient to go to five or six different farms and grow an acre-and-a-half of tobacco. Many of our growers have developed centralized facilities with their bulk barns and equipment, based on the premise that they could consolidate that allotment.

Second, over time that tobacco has moved from farms that are less ideally suited for growing tobacco, because they could be less competitive, to those farms where the soils and topography were a little better.

The same thing has happened within counties. If you will examine the pattern of production in many of our counties, you will find

it has shifted from one area of the county to another, primarily because that is the area in which it can be grown most efficiently and the best quality tobacco.

And that is the concern that we have of forcing this tobacco back onto those kinds of operations.

Senator HUDDLESTON. It is something to consider.

Mr. Moye, let me ask you, you seem to be recommending a total phaseout of the program, period, deregulation, as you call it, using a word that you heard early this morning. Have you made any studies or anything to indicate how many fewer people may be growing tobacco if we were to phaseout the program altogether?

Mr. MOYE. Senator Huddleston, I think that is going to depend a lot on what happens the first year or two. If we deregulate tobacco production next year, and people anticipate that the year after that we are going to repeat the 39 and 40 instances, we're going to put another program back in, they are going to plant it fence to fence, and it is going to be a real mess, and it is going to eliminate some of these small family farmers that are financially weak after these years of high interest rates.

But, on the other hand, tobacco is a labor/management intensive crop, and all of us here that know anything about tobacco know that that small family farmer that puts that loan, intending on carrying that tobacco, has the best quality and he sells for the top dollar, and you can look out here in southern Maryland, and they have been deregulated since 1965, and I have not seen any vast political integration or whatever happening there. It is small family farmers. They are prospering. Of course, they do prosper some because of our price protection, our umbrella, with these two price support programs.

Senator HUDDLESTON. Well, of course, if Maryland tobacco supplied all of the need, though, they would be growing it all, would they not?

Mr. MOYE. Do what, sir?

Senator HUDDLESTON. I say, if Maryland tobacco supplied all of the needs of the manufacturers, they would be growing it all, would they not? I mean, there would not be any Flue-cured or burley?

Mr. MOYE. No, Maryland is not. We need Flue-cured and burley, too. But I am saying in the case Flue-cured and burley, I think that it is possible that over a period of time, after the initial shock, we will see farming of Flue-cured and burley without a program, very similar to what you do today, except more profitable, with those people that are in the field.

Senator HUDDLESTON. But fewer people in the field?

Mr. MOYE. Not necessarily. Prominence is gaining in Flue-cured because of the proliferation of maybe 30- and 40-acre units all over the country. I doubt you will see too many much larger than that, unless a manufacturer has invested through contracts or whatever.

But I do not think you would see but very little change in burley. The economies of scale do not exist there, as I understand it. A 2- to 2½-acre farm is just as efficient as a 200-acre burley farm. So I do not see any real threat to burley.

Senator HUDDLESTON. You do not think that companies might be inclined to contract out growing from the larger more efficient producers?

Mr. MOYE. I think the companies—I know the companies realize that they need constituent interest in the tobacco industry, and they cannot afford 100 percent tobacco, but who would care what the smoking and health people did to them then.

No, I do not think that they are going to go for vast growth on the large farms.

Senator HUDDLESTON. My, I am going to have to recess again so I can go vote. It is probable that Senator Helms is on his way back. He should be back very shortly.

Go ahead, George.

Mr. DUNLOP. We anticipate that Senator Helms will be back just the minute this vote is over at 11:30, so he should be back momentarily.

Our next contingent, when you all are dismissed here, will be the first burley panel.

But while we are waiting for Senator Helms, why do I not run through some of these questions very quickly that he has for all of the panel. I think some of these questions have been answered in the testimony you have presented, so to be brief, let me pose this question to this panel. In your judgment, are there measures other than the freeze and price supports which will be necessary or desirable to make U.S. tobacco competitively priced, or which will reduce the amount of tobacco which might be acquired by the association? Are there things other than the price-support freeze that need to be done? We might just kind of go round robin on this.

Mr. LITTLE. Well, I think one of the volunteer programs that is being incorporated in the five States in Flue-cured right now—of course, we talk about the No. 1 quality tobacco in the United States, and we have a premium bright program that has been launched in the five States, and it is certainly being embraced for all of them, and I think this produces a great deal of incentive on the part of the producers, and I think this is the greatest volunteer effort.

There is one little thing that we are doing now in the Flue-cured States.

Mr. WOOTEN. Well, George, I will just say that, of course, we are always alert in the Stabilization Corporation. We look in various directions, and I think Mr. Bond, though, will comment on any thoughts we may have later, so I will not state anything.

Mr. NASH. George, we feel like there is something else that can be done, that regardless of legislation and so forth, the tobacco grower can only sell what the manufacturers and processors and exporters would like for us to produce and for them to sell. Their cooperation in making sure that we do not produce more than what they are willing to use and to sell for is a very important part in the future of the tobacco industry.

If we produce the quality tobacco they need, then they should tell us and our quotas should reflect how much tobacco this country really needs to produce and how much can be marketed at a profit to the producer. Otherwise, we can legislate and regulate an industry that really cannot respond to the world market, providing

they are not in a cooperative mood to be sure that whatever this amount is, they are willing to help us move that product.

And I think that in spite of all of the things that we are saying here today, we must have an industry that is totally cooperative in making this happen, or we will never solve our problems by continuing a reduction of quotas or reduction of the support prices and things like that, so I think there are other things other than this legislation. I think this is a step in the right direction, to be sure that we do have a program that our growers can depend on.

And I might comment on what Senator Huddleston has asked. The cost efficiency in tobacco as we change this transfer and lease problem is that it must get into the hands of the growers, and this is only one method of moving it over a gradual system to allow it to happen.

These people who have this allotment, have investment in it and must have the opportunity to sell that allotment. The farmer, in turn, would have an opportunity over a period of years to purchase or continue to lease on the farms, and we feel that this is a fair way of doing it. It may not be the best, but it certainly indicates that it is a way of moving this allotment to where the growers can have it at less cost to them, and those who want to maintain their allotments can do so by sharing in the cost of that production.

Mr. BLALOCK. George, I do not think there is anything else that even comes close to the importance of the price freeze, as far as making our tobacco more competitive. That will take care of 95 percent of our problem, as far as being competitive worldwide.

Mr. MOYE. Well, the price freeze is a step in the right direction, but it is—I thought Dr. Blalock was going to support me in this—it is too little too late.

Mr. BLALOCK. No, I am not saying that. I am saying that action on our price with the legislation is the most important thing by far.

Mr. MOYE. OK. Well, that is true. We have to become competitive. We have to have tobacco produced in this country that is competitive in price, and it has to be quality tobacco.

An early question Senator Huddleston asked was about the ending of lease and transfer, transfer of quotas, and I support the gentleman from Georgia and his fine representative of the Congress who stuck his neck out on this one. I think it is essential. If we are going to require people to share in the cost of production over a long period of time, and we continue to restrain and restrict programs below the demand for quotas, we are going to have a real job of policing this thing, and there are going to be people out behind the barn passing $100 bills and so forth, when on the surface they are share-renting or whatever.

And that is just the good American way, you know. When money cannot buy it, it is not worth much, in my opinion. But it is going to put people—it is just going to be hard to administer. We need to have this program transferred to the hands of a family-sized farmer that has historically produced good quality U.S. tobacco that there has been a wide and strong world demand for.

There again, I see a real need to cause and, yes, force the sale of quota from those who do not actively farm to those who do farm, in an equitable fashion to transfer quota but structured so that the

small, family-sized tobacco farmer that will produce the type of tobacco that sells in world trade does get his needed share of quota.

So these super farms are what got us into trouble. They are making use of Stabilization, and that is the other point. We need to have—if we are going to have price supports, we need to have them market oriented. When tobacco goes into our pool certain days and then cured tobacco brought out, it just plain tells you that the support price for that tobacco is above the world market price for it. It is above its value, and then we just have to do that.

We have to raise good quality tobacco at a competitive price.

Mr. DUNLOP. The other question that the Senator is particularly eager to get your input on is this question of exceptions to the prohibition of lease and transfer. What is your recommendation to the committee regarding any exceptions to the prohibition of lease and transfer; that is, under what circumstances or conditions, if any, would you recommend a continuation of the practice of lease and transfer?

Bill, would you or Atlas care to comment?

Mr. LITTLE. I think, Mr. Dunlop, we would question the exemptions. We have heard suggested 3,000 pounds or 5,000 pounds. We realize that maybe on the surface there would be merit. I think, first of all, if you establish an exemption of 3,000 or 5,000, and you delay the phasing in there, that is eliminating the leasing 2 or 3 or 4 years, initially there would be a tremendous demand for those particular allotments, that is, the lease price would be exceptionally high, and it would create a demand.

And so therefore I think we would question these exceptions for that reason.

I know that already 5,000 pounds was suggested last week in Flue-cured tobacco, and, as I recall, an analysis was made of 5,000 pounds, and I believe that approximately 73 percent of the allotments would be 5,000 pounds. So what figure do we come up with or arrive at that would be equitable and wouldn't—so what I am saying is, if you establish exceptions, it could further erode the problem.

Mr. BLALOCK. George, I spoke to that. Let me say another word or two. The only justification that we can see for eliminating lease and transfer or placing restrictions is the political implications that it may have. If it is necessary to get a bill through, our folks would take some limitations on lease and transfer, if that is what it requires. If that is not necessary, I cannot think of any justification for eliminating lease and transfer. It certainly is not efficient. It is not cost effective.

Now, again, I would repeat, if that is what is necessary to get a bill, then that is a whole new ball game and a whole new question, but we would certainly repeat the need to make this transaction gradually. I can take you to growers in our State who, if you eliminate leasing and transfer in 1986, you have essentially started the bankruptcy proceedings on them. They cannot lease additional tobacco in their area. They have long-term indebtedness that they have acquired as a result of the equipment and facilities they have bought. And there are no alternatives for them.

So we would plead, if you say you have to, then defend it as vigorously as you can and extend it and make it as gradual as you can and as painless as possible.

We think the proposal of allowing a man to transfer—we are not saying lease but transfer tobacco, where he operates the entire farm, all the row products, makes a lot of sense. That will eliminate the guy who is leasing 700 acres of tobacco now because he cannot grow 5,000 acres of corn and soybeans that would be required to do that.

It will allow the local growers in the area to be more competitive, because he would have to take care of the entire farm. We think that would be a defensible position on the floor, and it certainly would be an efficient step.

Mr. LITTLE. We are interpreting this simply as a mandate by Congress to preserve the prudent. I think is the reason that we take this position in Farm Bureau.

Mr. BLALOCK. Well, I want to be sure that that is the mandate, and that we are not doing it for other reasons.

Mr. MOYE. Well, I touched on the subject this last time. I see no reason for it, myself. It takes 18,000 or 12,000 pounds to have a unit large enough to justify one bulk cured farm, and that is not an efficient production. That is probably going to cover 80-some percent of the growth, I guess, it must be, for 10,000 pounds.

We must end release and transfer, but to facilitate that, we must have a structured way to really strip this program and put it in the hands of the family farmer, equitably, and I think that is just essential.

Other than that, long-term lease and transfer under the guise of shared profits or whatever you do is going to be administratively impossible. If people did share the crop, rather than paying cash rent in advance, that's only another way of—with the restricted amounts of quota, much less than demand for quota, another way that is just as bad as what we have today. It is still—you know, if I give 80 cents, I might be foolish enough to give them half the crop just for quota, and it all hangs on the quota.

We have to put the quota in the hands of the grower, we have to have an equitable way to transfer the quota, we have to structure the redistribution so that the family farmer does survive.

Mr. DUNLOP. The final question that the Senator has for each of the panel—and I think some of you addressed this in your testimony—is that within the context of what we do here in the committee, in terms of being able to write these legislative proposals, in your judgment, is there any matter of compelling consequence that has not been addressed in this package of legislation that has been discussed and, if so, what is your precise recommendation as to how it ought to be handled?

Bill, you had mentioned something about the——

Mr. LITTLE. The mandatory sale. I think this is one area that we do need to take a look at, unless we can accomplish this by regulation, and, of course, we know that our period for comment has been extended to June 22, and, hopefully, this can be accomplished, but I think we need to monitor this very closely, because I believe the adverse impact upon various entities that maybe people have not become aware of will surface, and I think we need to consider this,

and I am sure other panelists, particularly from Kentucky, will be making some presentations in this area, too.

Mr. DUNLOP. I might say in that regard that you or other people who are witnesses or hearing this testimony today—our legal staff will, of course, try to work with anybody to try to put in statutory language such things as may seem to be of compelling consequence.

Bob, you had mentioned a matter that you thought should be added to this. Why do you not articulate that again?

Mr. NASH. In regard to how much should be transferred or allowed in an allotment?

Mr. DUNLOP. Yes.

Mr. NASH. We feel like one of the important things in changing this is that we do have a system in which those people who own allotments, that are not efficient production allotments, that they have a way of transferring that into the growers' hands, and that they receive some compensation for having had that allotment in the past history of that farm.

However, we are very much concerned that, with the financial conditions of the farmer today, he is not in a position to go out and purchase probably as much allotment as he needs to make an efficient operation or even equal to what his production history is at the present time.

So perhaps a system of allowing a payout of this allotment by paying a certain amount each year with a personal contract between two parties. The only factor that we are very much concerned about is the future of the program. You must have the program or the farmer cannot afford to make that investment. With the assurance of a program, long-range program, which we feel is essential to the industry, then that farmer could have something to hang his hat on, and he could make that investment to acquire enough quota poundage allotment and own that tobacco quota and produce it on his own land. I think that is essential to the future of the tobacco industry, and we feel that what is being proposed in the legislation now does give them opportunity to make this change, and with some type of a contract and a stability in the future of the support program, that farmer will be able to make that adjustment and secure enough quota poundage that he can stay in business and do it efficiently, much more so than what he is today. With the high rent cost that he is having to pay, plus the fact that much of these small allotments would cause an imposition on them of traveling from farm to farm, if they were not allowed some type of a system of getting it back in the hands of the grower and getting it located on the farm where it should be produced.

Mr. BLALOCK. George, we would support that position and also support the position of Mr. Little relative to the interpretations being made of who can sell. We do not believe that was the intent of the law at all.

Other than that, I do not believe there are any other comments.

Mr. MOYE. I would support the statement of the gentleman from Georgia again, and, more specifically, I would say that, yes, we do need to structure the sale of quota, I would say require it to be sold on a contract basis over a period of 3 to 5 years. I would suggest full quota in the county, and have it sold to those that wish to buy, that would apply to buy it, based on their past history of produc-

tion. I think the provision he refers to would restrict the purchase to that past, 100 percent of what they have been producing in the past.

One further step that I would suggest is that we are talking about the redistribution of a lot of quota here. We are talking 80 percent or more potentially could be sold that cannot be sharecropped on the farms by the farmer adjacent or whatever. Structuring this to prevent a buyer's or seller's market, and I would presume a seller's market. Now, we have a lessor's market, and leaserents—the demand far outstrips the supply of quota.

I think that we, in lowering price supports to become competitive, of course, greatly change the value of quota, and I see nothing wrong in the same Congress that issued quotas back in the thirties free of charge—I see nothing wrong with the same Congress telling people how they may divest themselves of quota and at what price, the price to be determined by the county committees based upon instructions that might be devised by the Secretary of Agriculture to determine what is a fair market value quota. And it is very easy to capitalize or whatever.

Other people would say let the free market do it, but there is very little we allow in the free market to accomplish in tobacco today, and I do not see any reason why we cannot structure this.

Mr. BLALOCK. Mr. Chairman, may I make one comment?

Senator HUDDLESTON. Certainly.

Mr. BLALOCK. I hate to hear the continued references to quotas that were given by the Government free to everybody. I happen to own a little quota, and I know about two-thirds of that we bought and paid for. It was not given to us. The president of our association probably has bought 90 percent of the allotment that he owns. And so I think it is a misrepresentation of the facts of Senator Metzenbaum and others to imply that these quotas were given.

In addition to that, they have been listed on the tax books in at least 19 of our counties with an assigned value and a tax paid on them every year. So it is not a free gift from the Government that has been handed to us.

Mr. MOYE. I agree with that, Dr. Blalock. A lot of people have purchased quota and they have invested considerable amounts of money in it, but as long as these growers are being abused like they are, and if we do not solve these problems, I just guess you are going to have to figure you made a poor investment, because Congress can abolish it.

Senator HUDDLESTON. One more comment down here, and we will get to the next panel.

Mr. NASH. Senator, I would like to make one other comment. Many of your colleagues probably take issue with allotments, but if they should look at some of the agricultural legislation that they are supporting presently, when they talk about tobacco quotas. In our area many of our wheat farmers do not have the opportunity to participate in many of the Government programs because they did not have a history in the past, so in one way or the other, much of the legislation that is being passed also sets up the opportunity for certain farmers to be able to participate in a farm program, while others cannot. I think they need to be reminded that it is not just tobacco and peanuts and certain crops. There are other crops

that today exist under similar types of an opportunity to be grown and only participate in certain programs.

Senator HUDDLESTON. I think that is a good point to conclude this panel, and thank you very much, gentlemen. I appreciate your testimony.

The next panel will be: Ray Mackey, president of the Kentucky Farm Bureau Federation; Ed Sutton, president of the Council for Burley Tobacco; Henry West, president of the Burley Farmers Advisory Council; and, Albert Clay, representing the Burley Auction Warehouse Association. All of these gentlemen happen to be from the great Commonwealth of Kentucky.

Have you folks arranged any order of presentations, or any suggestions, or shall we just go down the line? We will go like they are listed.

We will start with Mr. Mackey, president of the Farm Bureau.

STATEMENT OF RAY MACKEY, PRESIDENT, KENTUCKY FARM BUREAU FEDERATION, LOUISVILLE, KY.

Mr. MACKEY. Thank you, Mr. Chairman, members of the committee. I am Ray Mackey, president of the Kentucky Farm Bureau Federation.

In the interest of time, I shall try to summarize the remarks that I wish to make.[1]

We appreciate the opportunity to discuss with you the views of a large majority of the more than 200,000 Kentucky tobacco producers who share in an annual income that is approaching $1 billion.

As you consider suggestions for possible change in the tobacco price support and quota program, we would like to remind you that Kentucky's tobacco producers continue their overwhelming support for the program. This is evidenced by the fact that more than 97 percent of those voting in the recent burley referendum voted to continue the program for another 3 years.

At the outset, we would like to say that S. 1179 is totally unacceptable to tobacco producers in Kentucky, and I would like to commend you, Senator Huddleston, for your comments to Senator Metzenbaum that hopefully will educate him about the realities of the tobacco program.

Producers have invested heavily in land, buildings, equipment, and the knowledge required to produce an acceptable supply of burley and dark tobacco necessary to meet the demands of the trade and consuming public. Some assurance of a fair return on investment and labor is vital to their well-being and to their ability to continue to produce this valuable crop.

Contrary to what some misinformed persons and groups seem to think, the production and use of tobacco in this country has not been outlawed, and it is still a legal commodity that is contributing greatly to the economy of the entire country. This program has not outlived its usefulness.

If, however, tobacco legislation is developed by this committee, we recommend that it include some changes in the burley tobacco

[1] See p. 120 for the prepared statement of Mr. Mackey.

program which would permit it to operate more smoothly and effectively.

Our first recommendation deals with the Secretary's authority to reduce quotas. We recommend that the Secretary be given authority to reduce quotas by at least as much as 15 percent, which is the current authority for Flue-cured tobacco.

Our second recommendation deals with leasing, which has come under considerable criticism in the Flue-cured area. It is, however, very popular with burley and dark producers in Kentucky.

In order to address the concerns that have been raised on the extent of lease and transfer, we recommend that the current 30,000 pounds leasing privilege be reduced to 15,000 pounds. Also, producers are willing to discontinue the current privilege of fall leasing of burley quotas, and we therefore recommend that leasing privileges after July 1 of each year be discontinued.

Our third recommendation deals with section 316B, entitled "Mandatory Sale of Certain Burley Tobacco Acreage Allotments and Marketing Quotas Held Before Enactment." USDA interpretation of this proposed regulation appears to create a multitude of problems, many of which may not yet be recognized.

The major problem seems to be in the language stating that the person owning the land must be "significantly" involved in agricultural production, and the interpretation given to what constitutes "significantly involved." Our belief is that it was intended that the term "significantly involved" should apply to the land itself, and that it was meant that entities—corporations, cities, airports, and so forth—which do not have sufficient tillable crop acreage be required to sell their quotas to active producers no later than December 1, 1983, or forfeit them. We recommend that this change be made.

Our fourth recommendation recognizes imports as a major problem. When a million pounds of foreign grown tobacco lands on the shores of this country, one of two things must happen. Either American producers must lower their production by a million pounds, or a million pounds of domestic production must go under loan. Neither of these alternatives can be considered attractive to domestic producers, the general economy of this country, or to the future stability of the tobacco industry itself.

We believe it is fully understandable why farmers are reluctant to embrace either reducing or freezing price supports, while there appears to be no real effort being made to come to grips with the ever-growing import problem.

We sincerely believe that any action to change the price-support mechanism should and must also deal with the increase in imports, which is the major problem currently facing tobacco producers and the future of the tobacco program.

We must find a way to deal with foreign suppliers, who are able to undersell American producers because of direct Government subsidies and other policies which give their tobacco an unfair trade advantage over ours.

Producer support last year for enactment of the no net cost legislation, which the entire tobacco industry supported, is a clear indication that producers are willing to act responsibly to preserve the tobacco price support program.

After a year's experience, it has become apparent that producer responsibility alone is not sufficient. Buying interests were successful in encouraging an increase in quota, and then allowed more than 260 million pounds, or a third of the crop, to go under loan, creating a heavy financial burden for producers under the no net cost program.

In summary, Mr. Chairman, the success of the tobacco support program is dependent on keeping supply in line with demand. In order to accomplish this, and in order to guard against the no net cost program becoming a millstone upon the backs of producers, we recommend the following:

One, increased authority to reduce quotas by 15 percent or more;

Two, reduce amount of quota which an individual can lease in from 30,000 pounds to 15,000 pounds;

Three, limit leasing to a period each year from February to July;

Four, give producers relief from expanding imports;

Five, expand no net cost assessment to include the buying trade; and

Last, clarify the mandatory sale and forfeiture provisions to apply to land instead of the occupation of the owner.

Finally, Mr. Chairman, we appreciate the opportunity to express our views on this important subject.

Senator HUDDLESTON. Thank you, Mr. Mackey.

We will proceed, then, with the panel. Mr. Sutton is next.

STATEMENT OF EDWIN SUTTON, PRESIDENT, COUNCIL FOR BURLEY TOBACCO, INC., ALSO REPRESENTING THE NATIONAL FARMER ORGANIZATION OF KENTUCKY, LANCASTER, KY.

Mr. SUTTON. Thank you, Mr. Chairman.

It is a pleasure to be here to testify at this meeting.

My name is Edwin Sutton. I am president of the Council for Burley Tobacco. I also represent the National Farmer Organization of Kentucky, and I am a tobacco producer from Garrard County, Ky.

Mr. Chairman, my testimony will consist of two parts: The recommendations of the Council for Burley Tobacco, and the recommendations of the National Farmer Organization of Kentucky on changes in the burley tobacco program.

By way of introduction, I would like to make some general observations I think most farmers are concerned about.

Of prime importance to farmers concerning any changes in the 1983 support price is what effect the price change will have on the movement of tobacco out of the pool. Farmers are very much aware of their total responsibility to the Government for tobacco under loan. Therefore, it is important that any changes in the pricing of the 1983 crop, due consideration be given on how the specific price change will impact on the price of tobacco in the pool.

The pool now has 268 million pounds and, in addition, about 33 million pounds in the carryover program, which will be offered for sale at the 1983 support price. Pool tobacco is a part of the 1983 supply.

The no net cost program currently is the responsibility of the farmer only. All interest groups are sharing in the decisionmaking

process on prospective changes in the program today. Should we consider making all interest groups responsible for the no net cost program?

It appears that farmers may be willing to consider some adjustment in the support-price level if they can be assured that current pool stocks will be moved into the trade, or at least that the price of pool tobacco and green tobacco be competitive in 1983.

The Council for Burley Tobacco met on May 20, 1983, and agreed to the following recommendations for changes in the burley tobacco program.

One, to reduce poundage leasing limitation from 30,000 pounds to 15,000 pounds in 1984.

Two, to remove the 5-percent-reduction limitation on quota each year and raise to 15 percent each year.

Three, to ask the Secretary of Agriculture if he has the authority under the Agricultural Adjustment Act of 1938, as amended, to adjust the price-support level for tobacco under certain conditions.

I would ask that the record reflect that the above three recommendations are made by the Council for Burley Tobacco.

I also represent the National Farmer Organization of Kentucky, and the following recommendations for changes in the burley tobacco program are our reaction to legislative proposals by the Flue-cured tobacco interest, and some revision in the Flue-cured proposals we think should be included for burley tobacco.

One, freeze price supports for burley tobacco in 1983 and 1984 at the 1982 level, and beginning in 1985, if the current price-support formula computes at 5 percent or less, as the 3-year-moving average of prices paid by farmers, including wage rates, interest, taxes, and so forth, the price support would be frozen for 1 more year.

Two, increase the new tobacco growers quota percentage of not more than 1 percent to not more than 3 percent.

Three, the no net cost tobacco funds that Stabilization collects from the farmer may be used in any way Stabilization sees fit, with the approval of the Secretary, to eliminate or reduce Stabilization stocks in 1982 and on, with the intention of operating the no net cost program at no cost to the farmer. Stabilization should be treated as any other cooperative operating price-support programs under regulations issued by the Secretary of Agriculture.

Four, beginning in the crop year of 1986, all lease and transfer should be abolished. The holder of any burley allotment beginning in the 1984 crop year may either grow his or her allotment himself as an active grower on the land to which the allotment is assigned, rent or lease the allotment to be grown on the land to which it is assigned, or sell the allotment to an active grower in the county.

Five, all imported tobacco be required to be graded and meet the same test as domestically produced tobacco for the nonuse of certain chemicals.

Six, remove the 5-percent-quota-reduction limitation.

Seven, reduce poundage leasing limitation from 30,000 pounds to 15,000 pounds in 1984.

Mr. Chairman, these are the recommendations of the National Farmer Organization.

Senator HUDDLESTON. Thank you very much, Mr. Sutton.

Mr. West, you may start.

STATEMENT OF HENRY S. WEST, PRESIDENT, BURLEY FARMERS ADVISORY COUNCIL, PAINT LICK, KY.

Mr. WEST. Thank you, Mr. Chairman.

I am Henry West, president of the Burley Farmers Advisory Council that represents over 50 major burley tobacco producing counties in Kentucky. I am a burley grower. I got off the tobacco setter early yesterday in order to be here today. The point I am trying to make here is that I represent the farmer who works in the field, and I represent that same farmer who guarantees that the program will operate at no net cost to the taxpayer.

I would like to focus first my comments to the price of burley tobacco. Is the price of burley tobacco too high? Some say that it is. But some of those same people who say tobacco is too high raised the price of cigarettes 20 percent last year. Our support price did not go up 20 percent.

Many are eager to suggest that the grower should freeze or lower the price of tobacco. What do these people sacrifice? Nothing. I would like to see the price of machinery, fertilizer, chemicals, interest, and all my supplies reduced, too, but that will not happen.

A freeze would force more tobacco under loan and would compound our problem. A freeze would not sell any more tobacco. It would merely take money out of our pockets, money that is needed to make farm payments and put food on our tables. With a price freeze and a larger no net cost fee this year, our net income would not maintain last year's level.

Our primary problem, as we see it, is supply. We, simply stated, have too much burley tobacco. And, more importantly to the grower, we have too much tobacco under loan, for which we are responsible. Because we did not have the tools to correct the quota this year, we face the threat of taking additional tobacco under loan again this year. There are some adjustments to the program that should be made.

One, at the very first opportunity, the 5-percent-quota-reduction limitation should be removed. There is no restriction on the amount the quota can be increased. There should be no restriction on quota reduction. The amount of reduction should be tied to loan stocks. We must be careful to maintain loan stocks at no more than 50 to 100 million pound level.

Two, leasing has been a very popular and useful tool in the production of burley tobacco. However, leasing and the hope of leasing at the marketplace have encouraged overproduction. Tobacco needs to be produced on the farm that holds the quota.

Three, tobacco is the only commodity in the price-support-loan system that is required to operate at no net cost. We cannot operate this program without some type of import protection. We as growers cannot compete with foreign governments who subsidize their growers without some import restrictions.

Four, our no net cost fee to insure against any future losses was 1 cent per pound last year, not nearly enough to cover the interest charges. We are told that this fee may increase this year 5 to 10 times. If this fee becomes excessive, and I think 10 cents per pound is excessive, it may destroy our program. We must be very careful to hold this fee stable and gradually build the no net cost fund.

As I have stated before, getting supply back in line should be our No. 1 objective. No correcting measure is going to cure our problems overnight. Patience will be necessary. Let us be mindful that the tobacco we have in our pool is our best quality tobacco. We must not be too hasty. We must not overreact. Our crop is late being set this year. The weather may correct the situation.

So I would urge you to remember that this tobacco program is a farmer program, financed by the farmer, and a program that we must preserve. I appreciate the opportunity to appear before this committee.

Senator HUDDLESTON. Thank you, Mr. West.

Mr. Clay.

STATEMENT OF ALBERT G. CLAY, CHAIRMAN, BURLEY AUCTION WAREHOUSE ASSOCIATION, MOUNT STERLING, KY.

Mr. CLAY. Thank you, Senator. My name is Albert Clay, you and I am from Mount Sterling, Ky. I am chairman of the board of the Burley Auction Warehouse Association, a trade association representing over 90 percent of all burley warehousemen servicing all burley tobacco growers in eight States.

I also appear before this committee as a burley tobacco producer who has been vitally interested in the tobacco program since its inception over 45 years ago.

The tobacco program, as you know, Senator, has truly been a success story. It has benefited the manufacturers, the dealers, the warehouses, and especially the tobacco growers. It has been successful because all of the above segments have united in recommending through their congressional delegations, as we are today, necessary legislative changes that have been needed to keep the program sound and stable.

That is why we were here in 1960 to reduce support prices for both burley and Flue-cured tobacco beginning in 1961 at the 1959 rate. Also, that is why we were here last year supporting the no net cost legislation to strengthen our program. And that is why we are here today to again recommend changes that will maintain a sound and stable program for the future.

It is reported that the Tobacco Subcommittee of the House of Representatives Agriculture Committee has reached somewhat of a consensus on proposed legislative changes in the Flue-cured tobacco program. It is also reported that this committee is considering similar legislative changes as it relates to Flue-cured. So we have been asked by the vice chairman of this committee, Senator Huddleston, to express our views as to how burley should be treated under such proposed legislation.

Although there have been minor differences in past legislation between burley and Flue-cured as relates to matters of production control and leasing, price supports under the rate-of-parity concept in the act of 1938 and 1960 have virtually remained the same for both types. To us, it would be a tragic mistake to deviate from the parity concept or have different price-support mechanisms for the two types.

Therefore, our association strongly recommends and respectfully requests this committee to consider the following in proposed legislation as it applies to the burley type:

One, that burley be treated the same as Flue-cured in any proposed changes in price supports for the 1983 crop and subsequent years. We share the belief that the United States burley and flue cured tobaccos must stay competitive in both the domestic and international markets.

Two, the no net cost tobacco funds that the Burley Cooperative Association collects from the farmers may be used in any way the Burley Co-op sees fit, with the approval of the Secretary, to eliminate or reduce the Burley Association stocks in 1982 and on, and with the intentions of operating the no net cost program at no cost to the farmer.

Three, we concur that in order to lower the grower's cost and to respond to the political criticism of leasing and transfer—we recommend that cash leasing and transfers of allotments be eventually abolished through an orderly transition of both types.

Four, we believe that the 5-percent limitation on burley quota reductions is too narrow, and that the Secretary should be given administrative authority to adjust both burley and Flue-cured quotas to achieve the proper reserve supply level in consultation with the administrators of the program.

I commend your committee for your wisdom and foresight in addressing these changes to assure the continuation of a strong and viable support program, and I thank you for the opportunity to express these views.

Senator HUDDLESTON. Thank you very much, Mr. Clay.

Well, there is a considerable amount of unanimity and some differences among you four, but about as much unanimity, I expect, as you can expect to get out of four different people on a subject like this.

Mr. Clay, you referred to the question of the need to maintain the traditional difference in pricing between burley and Flue-cured, bringing up the question of whether—if in fact the Flue-cured support price were to be frozen at a given level—whether then it would be even more—setting aside maybe some of the other reasons that might make it desirable to freeze the burley price, but just in order to keep in the same relative price situation with Flue-cured, it would make it more necessary or more desirable to also freeze the burley price?

Mr. CLAY. Well, as you know, Senator, we are living in a competitive world, and let us not fool ourselves. Right now the burley price support is about 5 cents more than Flue-cured. If they closed their prices and we stay as we are, there would be some 14- or 15-cent differential. This would not only, I think, damage the grower from the standpoint of exporting burley, but I think it would have a serious implication as to the usage of burley in the blended cigarette within the United States, because with a flip of the pencil, they could change the blend in a very small amount and cost us 50 to 100 million pounds overnight.

Senator HUDDLESTON. Do the rest of you see it as also an important factor?

Mr. SUTTON. Yes; I do.

Senator HUDDLESTON. How about Mr. West?

Mr. WEST. It is a very important factor, I agree. How much difference and how much tobacco would be displaced by price differential, I do not know. I am not equipped to say. But, of course, we are between a rock and a hard place here, so to speak.

We, the farmers, are concerned about that net figure that we take home. If you freeze price supports, we see that it is going to force more tobacco into the pool, and as a result of that, no net cost fees are going to be greater. And at some point there, the program is not going to be desirable for our farmers.

Senator HUDDLESTON. I think that is certainly a reasonable concern, because if you are increasing the fee percentage per pound that is assessed and costs continue to rise at whatever level is frozen, then, of course, you begin to work away at that margin pretty good.

On the other hand, if you are in fact pricing yourselves out of not only our domestic market but the foreign market too, then we have that risk that the program may not work, either.

Mr. MACKEY. Senator?

Senator HUDDLESTON. Mr. Mackey?

Mr. MACKEY. We have considerable concern about saying to the trade and to the world that "We are going to produce for you 600 million pounds of burley tobacco in 1983, and it is going to be priced at such a price, but if you do not want that, we are going to have for you 650 million pounds here again next year at the same price, and possibly again the next year at the same price." We already know, they have stockpiles of tobacco that will carry them for 1 year or so, and we feel that unless something is done to encourage them to buy the tobacco as we produce it, we could end up taking another 200 or 300 million pounds under loan, and it would certainly destroy the program because of the heavy burden that would fall on the producers.

Senator HUDDLESTON. All of you have expressed concern about the import situation. Do you have any specific recommendations as to how we might address that question? There have been several suggestions made from time to time. Mr. Mackey?

Mr. MACKEY. Well, there are a number of ways to get at it, but one thing that has been mentioned here from more than one source is that the no net cost program should be broadened to include others in the industry, and one very simple thing that would discourage importation of tobacco would be to assess buyers into the no net cost fund based on how many pounds of tobacco they import.

If they do not want to be assessed, then they could import less. It would be a condition to enter the marketplace.

Senator HUDDLESTON. Would you assess them also on what they buy domestically?

Mr. MACKEY. No; just on what they imported.

Senator HUDDLESTON. Just the imports?

Mr. MACKEY. Yes. Our condition for being at the market is our assessment fee. We do not have to pay the fee if we do not go to market with our crop, so I think that we could bring together at the marketplace some understanding that we all should be responsible for this very important industry, and so far the burden has

fallen on the producers. We are being made responsible, but others are not.

Senator HUDDLESTON. Any other comment on that import situation? Albert?

Mr. CLAY. Well, Senator, I think sometimes people refer to burley as being a stepchild to Flue-cured, but in this case I think we are a full-fledged member of the family, and I think that we have to be united, and even though we might have some differences around this table, I think we have to leave it up to the good wisdom and judgment of this committee and the committee of the House, and the Congress, as to how to correct those parts of the program that are under criticism, and maybe all of us will have to make some sacrifices, but when it comes down to the bottom line, we have to protect our program.

Senator HUDDLESTON. There has been reference several times to eliminating fall leasing, as opposed to spring leasing. For the record of the committee, Ray, explain the difference.

Mr. MACKEY. Well, yes. Right now, tobacco quota can be leased in anywhere from the time the quota is announced and you have your marketing allotment presented to you from the ASCS office all the way until the time you go to market to market the last pound of your tobacco.

We feel that perhaps some growers have anticipated leasing into the quota a little later in the year, and they overplanted their quota, knowing that they did not have quota for it. Then later in the year, at market time, they lease in quota and are able to sell it.

In recent years, they have been unable to do that in some counties, because that quota was all leased up, leaving excess tobacco in the hands of the grower, which is not desirable.

Senator HUDDLESTON. So, actually, that will permit you to lease in quota after the crop has been grown?

Mr. MACKEY. Right. So what we would recommend would be to terminate all leasing each year, about July 1, which is as late as anyone would plant tobacco, and then there would be no more leasing until the new quota was established.

Senator HUDDLESTON. And in your judgment, would this reduce the quantity of tobacco that would be marketable?

Mr. MACKEY. It would reduce the amount that would be grown somewhat, and would probably target our production more to the 100-percent quota, instead of what is happening, going closer to the 110 percent that is available legally to be sold each year.

Senator HUDDLESTON. How do you feel about the carryover provisions that have been utilized?

Mr. MACKEY. Well, we reluctantly last year encouraged the Department to institute a carryover program because of the tremendous amount that was overproduced. We think that is detrimental to the program, and we support what the Secretary has already said, that there would be no further carryover program. We would encourage that being announced very early each year, that there would be no carryover program, to discourage people from overplanting their quotas.

Senator HUDDLESTON. Do the others of you agree with that provision?

Mr. CLAY. I certainly concur with that.

Senator HUDDLESTON. Do you have any questions, Senator Helms?

The CHAIRMAN. First of all, Dee, I hope you have been as impressed with the witnesses from North Carolina as I have been with the witnesses from Kentucky thus far. I have listened with great interest, and appreciate your coming.

The thing that bothers me about the tobacco program is a little more fundamental than merely the technical aspects of it. Senator Metzenbaum was here this morning and, as Senator Huddleston has indicated, we are all friends in the Senate and we get along despite our divergent views, but as I was listening to him, I was reminded of Will Rogers, who once said, "The trouble with that fellow is he knows so much that ain't so." Dee and I could have taken him on, as we have taken him on on the floor many times, and I believe I could have debated every sentence of his statement with him.

And the media are not helpful—and I come from the media. They have misrepresented this program from the very beginning, and constantly. I never hear it mentioned that this is a 40-year program of the Government, in which people have invested in good faith, because it was their Government, and the Government says the program is here and it is going to be here, and instead of investing in apartment houses or stock or bonds or whatever, farmers have invested in tobacco land and allotments. And now I hear all of these proposals from people who are not out front in supporting the free enterprise system say, "Let us have free enterprise. Let us pull the rug out from under the tobacco farmers, and the widows of tobacco farmers and heirs of tobacco farmers," with scarcely any, if any, compensation.

Also, I heard the statement this morning that exports of tobacco are declining. Now, I think Hoke Leggett is no longer here, but is it not a fact that our tobacco exports have continued to rise?

I see Fred Bond of Stabilization over here. Is that not correct? We are still increasing our exports?

Mr. BOND. In money, yes, sir.

The CHAIRMAN. Sir?

Mr. BOND. If money is part of the value, yes, sir.

The CHAIRMAN. Yes. But not in pounds. The trouble is the imports that you are talking about, and I find myself wondering, as one of my friends said this morning privately—I hope we are doing the right thing in what we are considering here. We have a series of Hobson's choices. We have to satisfy a lot of folks who are candid enough to admit they do not know anything about the tobacco program, but they are against it. They do not know anything about it, but they are against it.

Let me ask you gentlemen, or Fred, or anybody who happens to know, what is the content, the average content, with respect to imported tobacco in a cigarette today, an American made cigarette? Thirty-three?

Mr. LITTLE. Thirty-one percent.

The CHAIRMAN. What was it in 1977 or 1976 or whatever?

Mr. LITTLE. About 60 percent.

The CHAIRMAN. Sixty. So it has virtually doubled.

Now, I think those facts ought to be emphasized, and I think they ought to be considered by our friends who are the manufacturers. And what you said is that the responsibility for this recovery of the stability of the program ought to be more broadly shared than is the case. Now, how we get at that, I do not know.

Mr. MACKEY. Mr. Chairman?

The CHAIRMAN. Yes, sir.

Mr. MACKEY. If I could respond, please, sir?

The CHAIRMAN. Sure.

Mr. MACKEY. I wish more people would have addressed this import situation, because we are being inundated by tobacco from many countries who will not permit a single pound of our tobacco in their homegrown cigarettes there, and we should stop that, because that is totally inconsistent with free trade.

The CHAIRMAN. Well, if it is any comfort to you, I have had my sword swinging on that issue, as you know, for a long time, and I have been amazed, frankly, at the resistance and the type of resistance, and the tone of the resistance to the simple proposition that imported tobacco ought to be classified properly. Yes, I am talking about scrap tobacco. Here they are sending in that tobacco, as Lum Garrison says down in North Carolina, like Blalock's bull. It is quality tobacco——

Mr. BLALOCK. I disassociate myself with that statement. [Laughter.]

The CHAIRMAN. They thresh the tobacco, stem it, and send it over here, and it comes in under the tariff of scrap tobacco. If that is scrap tobacco, my ears are a typewriter. And all we have asked—and I have been on the Customs Service, and I have been on the Treasury Department—just classify it like it is. And in return for that insistence, all manner of protests have been raised that this is political and so forth. Well, I think we had better back up and take a look at the overall picture.

I find myself wondering on the freeze. Now, I am going to go along with what the tobacco family has agreed to, but someone has raised the question, if we freeze it, will that price differential really do anything toward increasing exports? Well, you talk about Korea, and look at the wages that are paid over there, and that sort of thing. Now, what are these opponents of the tobacco program talking about? Do they really want to say to all of these tobacco producers, Senator Huddleston, "You go down to the pay level of the Korean tobacco producers"? They would not dare say that, and yet that is what they are implicitly saying, and this is what makes me weary of all of these arguments that I hear over and over again ad infinitum, when they simply do not make sense and will not hold water.

I did not mean to get strung out, but that is a taste of what you hear on the Senate floor, both ways.

But I want to compliment you on your testimony, and I appreciate your coming here this morning. Thank you.

Now we have another Kentucky group.

Senator HUDDLESTON. Joe McDaniel, president of the Burley Tobacco Growers Co-op Association; Ernest Hillenmeyer, representing the Burley Leaf Dealers Association; Dr. Milton Shuffett, vice chairman, Department of Agricultural Economics for the Universi-

ty of Kentucky; Jim Putnam, president of the Tennessee Farm Bureau. How did we get Tennessee in here?

The CHAIRMAN. Well, it would not be difficult. Howard Baker.

Senator HUDDLESTON. Let me also acknowledge John Berry, who is counsel for the Association of Burley Tobacco.

Mr. BERRY. I am not a witness.

Senator HUDDLESTON. John says he is not a witness, but I can tell you this, hardly any man alive has observed and participated in the tobacco program to any greater extent than John Berry.

We are glad to have you here, John.

As before, we will just go according to the listing here and start with Joe McDaniel.

Joe, your statement, without objection, will be included in the record.

STATEMENT OF JOE McDANIEL, PRESIDENT, BURLEY TOBACCO GROWERS CO-OP ASSOCIATION, LEXINGTON, KY.

Mr. MCDANIEL. Mr. Chairman, members of the committee, Senator.

I am Joe McDaniel, Cynthiana, Ky. I am president of Burley Tobacco Growers Cooperative Association, 620 South Broadway, Lexington, Ky.

For almost 43 years this association, under contract with Commodity Credit Corporation, has administered the price-support program for hundreds of thousands of burley tobacco farmers in the States of Kentucky, West Virginia, Ohio, Indiana, Missouri, and in States neighboring to those where burley tobacco is grown.

For a number of years, this association has communicated its views on the tobacco crisis, and while it has encountered no very serious problems of its own and has had an eminently successful operation for 42 crops, it is available to commit its membership to views that will best serve them and the tobacco programs generally under the circumstances.

However, this association adheres to its position on the continued use of the parity price concept in fixing the loan rate on crops of burley tobacco as has been the practice historically, the views of the Secretary of Agriculture to the contrary notwithstanding. To yield in this view is to surrender for American agriculture the relative price advances made in the last 40 years. Bear in mind the parity price is not the problem but the 90-percent provision in the law is, and that sentence in the act (7 U.S.C. 1441(c)) should be amended for a lower percentage. If the loan rate of $181.30 per hundredweight was only 65 percent of the parity price for the 1982 crop of burley tobacco, as it has been asserted, then a 5 percent lowering of the percentage from 90 percent would have resulted in a loan rate of $167.40 per hundredweight, or $1.67 per pound. Obviously, price is the problem and such amendment would remedy the problem.

We have never been advised by the Department what are the ingredients in the parity price formula for tobacco farmers. From indications in the past, there are inappropriate inclusions in that formula which should be examined. Certainly, the price of a $100,000 tractor affords no measure of right for the owners of quotas of

10,000 pounds and down to 100 pounds or less. For the 1979 burley crop there were 303,093 farms and 296,131 of them had quotas of such sizes.

The 5-percent limitation in cuts, or the 95-percent factor, was ill advised and we opposed it. The total cut of 25 percent in 1955 consisting of a 15-percent additional cut accomplished, pursuant to a referendum authorized by the Congress and conducted in the latter days of April, a short time before planting, was a memorable and critical experience that counsels no limitation.

The law contains a formula, tried and proven, for the determination of quotas that respects the requirements of the trade and rightful needs of the using public. In case of an anticipated shortage or scarcity it gives the Secretary authority to increase the quota so determined by as much as 20 percent. This program is not one of scarcity. It is economically and philosophically sound and it originated in the offices of this association at Lexington, Ky. The limitation on cuts should be repealed.

This association was cheered by the proposal to reduce from 30,000 pounds back to 15,000 pounds the quantity of burley tobacco that can be leased. Likewise, this organization opposed the measure that provided for the increase.

The assessment fund should be used solely to offset and pay losses as the "no-net-cost" 1982 legislation says for burley and for that purpose the fund is collected and preserved by CCC.

Regulations for administration of the price-support program should be uniform and uniformly applied to all grower associations alike.

The minutiae of lease and transfer as proposed and the sharing of assessment and risk of production is too much to encumber legislation with and should be the subject of regulation. In any event, the proposed abolition of lease and transfer, beginning with the crop year of 1986, solves the problem for Flu-cured. However, this association would amend the law and strike the phrase, "* * * or considered planted * * *" and thus close the door to the drafting of a regulation that would allow a lessee of a tobacco quota to remove it entirely from the farm, the lot or plot and plant it on land located elsewhere.

This association opposes the sale of quotas in burley for reasons frequently and strongly asserted in the past.

This association is in accord with the suggested penalty of forfeiture of quota, or allotment, for violations as misrepresentations.

The disposition of the people identified with the Burley Tobacco Growers Association, including the vast membership, is, as always in the past, if their suggestions for improvement and strengthening the programs of production control and price support are not acceptable now and if only a price freeze is attainable then freeze the loan rate at the 1982 level.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Joe.

Mr. MCDANIEL. I would like to say in addition that I have with me a man long associated with the tobacco industry who has participated in the drawing of legislation for many, many years and I am sure he is very competent and capable of answering any questions you may see fit to ask.

Senator HUDDLESTON. Mr. Berry. We may inquire of him before this panel is finished, but we will move on down line now to Mr. Hillenmeyer.

STATEMENT OF ERNEST HILLENMEYER, CHAIRMAN, BURLEY LEAF DEALERS ASSOCIATION, MAYSVILLE, KY.

Mr. HILLENMEYER. For the record I am Ernest Hillenmeyer and I am chairman of the Burley Leaf Dealers Association.

This association is responsible for selling most of U.S. burley tobacco overseas. We understand, as an association, that there have been six proposals concerning Flue-cured tobaccos and we would first speak to those.

We supported a proposal for a freeze in support prices in 1983 and 1984 at the 1982 level. This is a step but it will not make us immediately competitive in world trade. Some provision should be made in the support formula to factor into it offshore prices and quantities of production, if we are to be truly market oriented. Competitive price and quality would increase U.S. exports and would substantially reduce U.S. imports.

I might also add here that if there is an area for additional burley markets, it is overseas and not in the domestic market where usage is in a slight decline.

We support the proposal to eliminate the double assessment and we support the proposal to increase from 1 to 3 percent the amount of quota available to new growers. Our association is concerned about proposals to make the "no-net-cost" funds contributed by farmers available to stabilization corporations and to other cooperative associations to be used in an unregulated manner.

We agree that sales potentials could be enhanced by using these funds to reduce quoted prices. However, if this is to be done, these adjustments should be made available at the same time to all members of the tobacco trade. It should not be the intent of Congress to give these organizations a favored position over our private sector members.

In our testimony in April before the House Subcommittee on Tobacco and Peanuts, our association suggested a marketing bulletin published for producers, producers associations, and dealers. We still consider this a valid recommendation.

We support the idea of abolishing cash leases and believe that everyone who has a quota should share in the risk of production. Our position is not really strong about this. We think that the political implications are the most important factor. Our association does not clearly understand the meaning or intent on grading imported tobacco. We think it is not feasible to apply a chemical control statute. This seems to be an indirect attempt to restrict imports. Our association is consistently on record as favoring free trade, so we do not support this provision. In our opinion, high monetary restrictions on imported leaf will merely move cigarette manufacturing offshore, resulting in the loss of jobs here in the United States.

In closing, we would like to point out that offshore production has increased substantially, both in quantity and quality, during the past 10 years while we have pursued a policy of artifically high prices, administratively induced scarcity and reduced quality. To

regain the domestic and export markets we have lost, we urge the adoption of a support formula which makes us price competitive. We urge, too, reasonable restrictions on production cuts.

This morning, Senator, we have heard a number of people address the 5-percent limitation, which is in the existing law with regard to burley. We think that this is an important factor in maintaining the guarantee of supply to foreign users. It was originally inserted in the law as a protection to farmers by Congressman John Watts and by Senator John Sherman Cooper. If we put a reasonable restriction on production cuts, this will guarantee adequate supplies to all manufacturers, either domestic or foreign, and protect the farmers from losing additional markets.

Our association strongly supports adoption of the same provisions for both Flue-cured and burley, if legislation is to be enacted. We, as an organization, strongly believe the support program is in the best interest of all members of the trade in the United States and I would only comment to this group that if you are selling tobacco in world trade, that you have to know that being able to deal in, process and sell imported tobacco makes it also possible to move some high-priced U.S. leaf.

Thank you.

Senator HUDDLESTON. Thank you, Mr. Hillenmeyer.

Dr. Shuffett.

Dr. SHUFFETT. Thank you, Mr. Chairman.

I have filed a copy of my remarks with the secretary and so, rather than read it, I will have some comments about the general contents of the statement.

Senator HUDDLESTON. Without objection, your statement will be inserted into the record.[1]

STATEMENT OF DR. MILTON SHUFFETT, PROFESSOR OF AGRICULTURAL ECONOMICS, DEPARTMENT OF AGRICULTURAL ECONOMICS, COLLEGE OF AGRICULTURE, UNIVERSITY OF KENTUCKY

Dr. SHUFFETT. My comments will relate mainly to the proposals that have been advanced for Flue-cured and some of the possible impacts that these changes might have for burley. My remarks represent my personal assessment and they are not necessarily intended to represent or reflect the position of the College of Agriculture at the University of Kentucky.

I think that in the case of burley the situation has changed very much. There were very large crops in 1981 and 1982. The price increases for cigarettes associated with both manufacturers increases and tax increases have reduced consumption of them and resulted in the fact that we have under loan about 270 million pounds of burley.

It appears to me that proposals for Flue-cured tobacco that are most applicable to burley are the price-support freeze and the proposed changes in the leasing program.

In the case of burley over the last decade, we have seen increased availability of offshore tobacco that is much cheaper than

[1] See p. 122 for the prepared statement of Dr. Shuffett.

U.S. burley. Our share of world trade in burley is down drastically. At the same time imports have increased to the point where 20 percent of all burley used in this country is imported burley. On the 1st of April of this year stocks in this country were about 286 million pounds of foreign-grown burley.

I think the relevant question is whether or not a price-support freeze would increase our exports and reduce some erosion of our domestic market. I doubt that immediately we would see much effects. Certainly, this would make us more competitive over a period of time and prevent the situation from getting worse, it seems to me, but certainly a very undesirable impact of a price freeze would be an increased dilemma for the loan associations in moving present stocks back into the market.

With regard to the lease and transfer program, only about 20 percent of the burley is leased and transferred. Our studies have indicated that these are quotas held primarily by older people, nonfarm residents, small units, leasing to larger producers.

Any legislative action to withdraw lease and transfer privilege would reduce or deprive many quota holders of some income from an asset which they purchased when they purchased their farm. I think it would reduce the efficiency of production to some extent, although they could still share rent or cash rent land and if leasing should be prohibited for burley, as opposed to Flue-cured, it might be useful to authorize sale of quotas in order for those currently holding quotas to get some return on the investment they have.

The other proposal with regard to Flue-cured seems less important to me than leasing. I think to become more competitive, the price freeze does offer some improvement. As I mentioned earlier, the freeze would jeopardize sales of loan stocks. I think that to get loan stocks back into the trade it can only be done by reducing production or increasing use. Increasing use is much more desirable but much more difficult, I think, to achieve. The ultimate solution would require some use of each of the alternatives and to this end it might be advisable to provide the Secretary of Agriculture some additional latitude in setting annual quotas for burley and if a price freeze is implemented, the producer assessments, certainly, under the no net cost may need to be increased in order to give coops more latitude in pricing their stocks.

I appreciate very much the opportunity to appear before you in this meeting and I appreciate your interest on behalf of tobacco. As you well know, it is very important to a lot of people in Kentucky and throughout the Southeast.

Thank you.

Senator HUDDLESTON. Thank you, Dr. Shuffett.

Do we have Mr. Bailey representing Al Glass?

Mr. GLASS. No, I am Al Glass.

Senator HUDDLESTON. We have you both. Fine.

Mr. GLASS. Virginia Farm Bureau handles tobacco and peanuts, and we felt it would be good to have a grower here.

Senator HUDDLESTON. Very good. We will be happy to hear from Mr. Bailey, the grower.

STATEMENT OF ARCHIE BAILEY, CHAIRMAN, BURLEY TOBACCO COMMITTEE, VIRGINIA FARM BUREAU FEDERATION

Mr. BAILEY. Mr. Chairman, I am Archie Bailey of Washington County, Va., and I realize that we are quite insignificant in Virginia where burley tobacco production is concerned as compared to Kentucky and Tennessee.

Senator HUDDLESTON. You are not insignificant at all. You have exactly two votes in the U.S. Senate, which equals every other State.

Mr. BAILEY. We expect to use those votes, too.

Senator HUDDLESTON. All right, sir.

Mr. BAILEY. Nevertheless, it is quite an important crop in the area of the State from where I come. For instance, in the county of Washington where I live we have some 4,000 small allotments and this is quite significant.

I am here to offer our views on legislation for the tobacco program. We are aware of the changes in the pricing mechanism concerning Flue-cured tobacco and the fact that it will eventually impact on the utilization of burley tobacco.

Therefore, if legislative changes are made pertaining to freezing the price for Flue-cured tobacco as outlined in point one of the "Principles for Tobacco Legislation," we think it would be in the best interest of burley that this legislative item be expanded to include burley tobacco.

Other changes we would recommend included in the legislation are as follows:

One, to reduce the amount of tobacco that can be leased in from 30,000 pounds to 15,000 pounds.

Two, to increase the limitation on quota reductions from 5 percent to 15 percent.

Three, that when a farm with burley tobacco quota is broken up and sold in two or more tracts, that the seller be allowed to make designation of quota.

Four, that lease and transfer across contiguous county lines be allowed.

Five, that the sale of burley tobacco within a county be allowed. This would be even more important if it were deemed necessary to eliminate lease and transfer in order to keep a viable tobacco program.

Mr. Chairman, we urge you to move ahead with legislation that will improve the tobacco program and provide some additional degree of permanence to the program.

This concludes my statement and I would be glad to try to answer any questions.

Senator HUDDLESTON. I am sure we will have some.

Mr. Putnam from Tennessee.

STATEMENT OF JAMES S. PUTNAM, PRESIDENT, TENNESSEE FARM BUREAU FEDERATION

Mr. PUTNAM. Thank you, Mr. Chairman.

I am James S. Putnam. I am president of the Tennessee Farm Bureau Federation. I have a relatively short statement here, par-

ticularly compared to some of those presented. I will read this and I will be glad to respond to any questions you have to ask.

Senator HUDDLESTON. Thank you, sir.

Mr. PUTNAM. I appreciate the opportunity to present the policy of the Tennessee Farm Bureau Federation on this important issue.

Tobacco is Tennessee's No. 2 cash crop, therefore, extremely essential to the economy of the State, especially to agriculture and tobacco farmers.

The major part of the tobacco production of Tennessee is burley, hence my comments will be directed to the areas that affect and deal with the burley aspect of the tobacco program.

Tennessee tobacco farmers have generally been pleased with the program in the past and somewhat reluctantly have accepted the additional cost that has been passed on to them by the no net cost and the cost of grading service. However, there are conditions in tobacco and the program that causes us concern and should be addressed.

When we view the present conditions existing in Flue-cured tobacco and those of burley, which are somewhat different in that burley has done a better job of controlling production, and not having created the overproduction problem that exists in Flue-cured. Therefore, we believe they should be dealt with separately in some areas.

The increase in the 1982 quota which Tennessee farmers were opposed to, but because of others involved in the industry the increase was granted, has created some problems.

We are concerned about the surplus created by this action. Also, the reduction in exports, increased imports and reduction in domestic use. All of these could have a dramatic effect upon the tobacco industry in Tennessee.

It is our opinion that these areas must be addressed if we are to continue with an acceptable tobacco program. The success of the burley tobacco program has been the willingness of producers to keep supply and demand balanced. The 1982 trend certainly is not going in that direction.

The reduction in quota of only 5 percent for 1 year may not be enough to address this situation in the future. It is obvious, if we maintain high level support prices, we must control production.

We support the lease and transfer of allotments within the county. We favor a procedure for return and redistribution of allotments to the county ASCS office by allotment holders who no longer have sufficient cropland on which to grow their allotments and that Government entities which have purchased lands with tobacco allotments be required to return their quota to the county ASCS for redistribution within the county. However, we support the right of individuals to own and hold tobacco allotments with their farms.

The support price is an intricate part of the program that has always been appreciated by the tobacco farmer of Tennessee. However, in view of reduced exports and increased imports, we must give consideration to preserving our market for tobacco and, of course, that has to deal with consideration of price.

Thank you.

Senator HUDDLESTON. Thank you very much.

Mr. PUTNAM. I would be glad to answer any questions you might have and I am grateful for the privilege of presenting this statement.

Senator HUDDLESTON. Starting again at the top with Joe McDaniel, Joe, just for the record now, your organization operates what we referred to as the pool, to borrow money from the ASCS to pay the farmer for that tobacco on the market, which does not bring equal to or above the support level, and then you maintain possession of that tobacco until it is resold. Last year, in the burley area, we took in an abnormally large amount of tobacco into the pool. It has already been suggested this morning that there were circumstances that caused that, many of them, perhaps, but at least one was that it was a bumper year weatherwise, a good growing season, and quotas had been increased.

If the price of green tobacco is frozen at the same level at which that tobacco went into the pool, what effect will that have on your ability to move that tobacco, do you believe, or in another way, how much additional value is added to that tobacco or additional cost, by the very process of storing, that your organization does?

Mr. MCDANIEL. Well, our average take this year costs $1.86 per pound.

Senator HUDDLESTON. You might want to get a little closer to that microphone.

Mr. MCDANIEL. $1.86 a pound.

Senator HUDDLESTON. $1.86 a pound is what you paid for it?

Mr. MCDANIEL. Yes, less than 4 cents a hundred, so we call it $1.86. If we get another crop, and the indications are now that we will have at least 650 million pounds of production, a guesstimate, I would say we would take in another 100 to 150 million pounds more under loan.

Senator HUDDLESTON. That would be what, about half what you took last year?

Mr. MCDANIEL. Around that, yes. If we take it under loan, we have to borrow the money, and as of now, it is 9⅛ percent, and if we keep that for a number of years, it is going to be a tremendous burden to ever move it. And, at the same, the growers are going to be responsible for it, as you well know.

Senator HUDDLESTON. So the price generally is going up every year for tobacco?

Mr. MCDANIEL. So it is a price situation. We would much rather, and I think it is to the benefit of the farmers, if we can move into the trade, rather than go to the Government and carry it at a high price. So we think if the price is adjusted—and we think the Secretary has that authority now under certain conditions, to lower prices and make it more competitive—we will be in much better shape by going that route, rather than taking it under loan and carrying it at the high rate of interest we are having to pay for it at the present time.

Senator HUDDLESTON. Mr. Hillenmeyer, you pointed out that a freeze would not automatically make us competitive with other foreign-produced markets immediately. What would be the direct effect of, let us say, a freeze next year as you try to sell tobacco around the world and try to move our leaf?

Mr. HILLENMEYER. Senator, I think that the mere fact that we freeze the price of tobacco for either this current crop or indicate that we will in the future would give some confidence to traditional users of American tobacco that the spread between the tobacco that is produced in Brazil and Korea and other competitive countries is not going to continue to widen, and therefore, where perhaps they have been reducing content of U.S. tobacco in the blends, they may in the short run hold what they are doing and in the long run I believe would increase useage.

Senator HUDDLESTON. What do you see happening as far as the production expenses in foreign countries? Are their expenses going up, too, the production costs?

Mr. HILLENMEYER. In my opinion, Senator, the production costs in foreign countries are much higher than we generally feel that they are. Part of this is due to Government support of tobacco programs. I think there is hardly a country in the world—and I think that it is significant here in the United States—there is hardly a country in the world that does not have some type of tobacco program. Some of them are very protective, as Mr. Mackey said, of the production in their own countries. Some of them are more geared to free trade, because they have some kind of tobacco that they want to sell us. It is very difficult—we deal in imported tobacco. It is really very difficult to arrive at what the tobacco actually costs that is produced in a given country. One of the variables that makes it almost impossible are the currency exchange rates.

Brazil, for instance, I am sure, expanded their production of both Flue-cured and burley tobacco tremendously. I am sure that their real costs have risen, but their currency is so deflated in value that it has become worthless, that on the world market that tobacco will still market at a relatively cheap price.

Senator HUDDLESTON. Some of the countries that have gone into tobacco production are countries where the inflation is the highest in the world.

Mr. HILLENMEYER. Yes.

Senator HUDDLESTON. So you would think that their costs of production would be rising faster than our cost of production here, and they ought to catch up with us one of these days. One of the factors you mentioned, the dollar exchange, is important.

Mr. HILLENMEYER. In Venezuela, for a specific example, they have a very, for them, sound tobacco program where they are very interested in keeping tobacco producers in the country, so they take the tobacco from the farmer at an artificially high price, they trade the farmer tools at artificial prices, and then the tobacco becomes available in the world trade at whatever they can get for it. It is really a socialized program to keep tobacco producers in the country.

I think one of the aspects of our own program is that none of our opponents would think of bringing to the Senate floor a bill to repeal the minimum wage, and what the tobacco program does for people in the Southeast is do exactly that and keep on farming.

Senator HUDDLESTON. Dr. Shuffett might comment on this. I was amazed, when we began to look at some of the other programs that the Government has that are tied to indexing, how much difference you make in that total figure down the road a little piece, 3 or 4

years, or even a little more, when you even delay a little bit an increase, or certainly if you freeze it or reduce it, because that is the base on which all future increases are going to be added, and I think we have that situation here to some extent, have we not, Dr. Shuffett?

Dr. SHUFFETT. Well, yes, sir, I think we have it already to some extent. The authorization in last year's legislation to cut back on increases in price supports was by as much as 35 percent, so over time, with inflation, whatever the rate might be, and increases in the price supports of two-thirds of that rate, then certainly you begin to narrow and reduce the real prices of tobacco, compared to what they have been in the past.

Senator HUDDLESTON. And compared to what they might have been in the future if you had not had these reductions.

Dr. SHUFFETT. That is correct. And, of course, a freeze will add to this in future years.

Senator HUDDLESTON. In effect, that certainly ought to improve our worldwide competitive situation in the future.

Dr. SHUFFETT. Well, I think it certainly prevents the differential from becoming larger, prevents the situation from becoming worse in terms of price competition, I assume.

Senator HUDDLESTON. Do you have a comment on that, Mr. Putnam?

Mr. PUTNAM. I would like to comment. I think the freeze may be a step in the right direction. We need to stop and stand still before we turn around and go back the other way. With the already disparity in price, and if we continue in this direction, automatic increases in support price will magnify the problem. We must recognize the problems brought about by automatic indexing and deal with the current situation as it confronts the industry.

Senator HUDDLESTON. How about Virginia on that question?

Mr. BAILEY. I have to agree with Mr. Putnam from Tennessee. These things that are continually rising and rising and rising eventually will self-destruct.

Senator HUDDLESTON. We are seeing a little of that in the milk business.

Mr. PUTNAM. One more time?

Senator HUDDLESTON. Yes, sir.

Mr. PUTNAM. Now, this is not to give the wrong impression. I surely think farmers could use an increased price, but if we destroy the industry, then we are in worse shape than we are if we recognize the current problem.

Senator HUDDLESTON. You know, I have found many, many tobacco farmers who say virtually the same thing. I do not think you will find anybody who thinks they are getting paid too much. Tobacco is a tough crop to raise, as you know. You work 12 months out of the year, and it is hard work. I am not totally familiar with how the mechanism of the Flue-cured works, but I know in the burley area, there is still an awful lot of just plain old hard handwork for everybody in the family. So it would be awfully hard to say anybody was getting overpaid for that kind of work, but I find many producers who, of course, would prefer not to have to take a reduction or a freeze or anything else, but who recognize that it

may be the very thing that has to be done to protect the program, and that is the essential thing.

People who are recommending eliminating the program I do not believe have thought through the impact it would have on so many thousands of small farmers. It would literally, in my judgment, in Kentucky, run a lot of people totally off the farm. It is the major cash crop. It is the one thing you depend on every year. It has sent more kids to school, probably, than all of the educational programs that the Congress has enacted, and it is continuing to do that.

The impact would be so great in Kentucky, it is just almost inconceivable, and the grower recognizes that and is willing to make many concessions, as he has been making in the last several years. And our job is to try to get the right balance to make the program still worth something and at the same time preserve it so it does serve the interests of all segments, as it has over the many years that it has been in operation.

Do you have any questions of these gentlemen, Mr. Chairman?

The CHAIRMAN. At the risk of appearing, if not being, didactic, I want to compliment you. You have put your finger on the problem.

The worldwide consumption of tobacco has gone up. We are just getting far less than our share of the exports. Now, I went over to Geneva last Thanksgiving week. The President asked me to go over and talk rather sternly to some of the countries that are engaging in what I call predatory export subsidies. I guess I met with 25 or 30 delegations.

I remember Japan, for example. We had four gentlemen from Japan, and I believe to my soul they each were smoking two cigarettes at a time. They had them in both of their side pockets, they would pull them out of their inside pockets, and they would light up, and I come from North Carolina, and I had to open a window, so you know the smoke was bad. And I looked, and they were all American cigarettes. I said, "Where did you get those cigarettes?", and they sort of smiled. The purpose of my question was that the Japanese will only let a fraction of their outlets even sell American-made cigarettes. They are under the counter, and you have to go ask for the American-made cigarettes at those relatively few outlets that are permitted to carry and retail American-made cigarettes.

Now, Mr. Nakasone was over here not long ago, and I had a conversation with him about it. I reminded that there was a predisposition in this Congress to pick up on what John Connally said about letting them sit in a Toyota on the docks in Tokyo, you know, and listen to their Sony radios or whatever, and so forth.

I do not advocate a trade war, but I do think that it is high time that the United States and this Government of ours realize that the war is going on and that we are just not shooting in it, you know. That, to me, seems to be the problem.

But, Dee, I would like to ask a question of each of these witnesses—and if you will just give me a brief answer for the record. Most of you have suggested that you do not think the freeze will do much good. What other than the freeze can we do—do you have a substitute for the freeze concept? We can just go right down the line.

Mr. PUTNAM. I do not know that we have or I have a substitute for it, but I believe I have already indicated that we are going in the wrong direction. I tend to believe, Mr. Chairman, that we are in a world market, and some way, somehow, we must find some way to be competitive. I do not think we are only suffering from that problem in agriculture and, more particularly, in tobacco. I think we are in other areas, also.

The CHAIRMAN. Textiles, for example.

Mr. PUTNAM. Right. There may be a lot of things that I think are causing this. Our cost of production is giving us a problem. But I do not think we can completely ignore our competition, because I think people are prone to buy where they can buy for the least money.

I was privileged, as many other State presidents were last year, to go to Japan, and we were right in the middle of the Japanese people who use tobacco, and they know full well where they can buy it a lot cheaper than they can from us. I think this is a problem for us.

Mr. Mackey from Kentucky addressed the thing that we might get involved in here dealing with imports, but I tend to believe we are going to have a problem keeping tobacco out of here, because I personally think that there is a demand for it in our country, because the people who use this, it is a business venture for them, and I think it is pretty hard to keep them from finding some way to do it, so we need to be looking at—we have at least got to keep production in line with our demand, and I think we ought to do what we can to protect against imports, but I also think we ought to be trying to find ways to become more competitive in our export commodities, or in other commodities.

Dr. SHUFFETT. Well, Senator Helms, I think the idea of a freeze is a move to keep from becoming less competitive. If not a freeze, what else? I guess I do not know. I do see some problems with a freeze from the standpoint of how we, the associations, move their holdings back into the trade, given that future prices of tobacco will be at the same price they bought the tobacco at that they have on their loan, and I think it will necessitate some pretty substantial no net cost assessments to carry the tobacco until it can be moved back into the trade.

Hopefully, if we have a freeze, it will make us more competitive, and, over time—I think not immediately, but over time, possibly move additional tobacco into foreign markets and, hopefully, reduce imports.

The CHAIRMAN. Mostly, we are just punting and looking to see where the ball comes down.

Senator HUDDLESTON. Trying to keep from going over the cliff totally.

The CHAIRMAN. That is right.

Mr. HILLENMEYER. Senator Helms, I would like—the question of whether we hold our markets or not is very much price related. A freeze is not sufficient to make us competitive in world markets. How much of a cut in price to the farmer it takes to make us competitive, I am not sure. The only reliable indication that I think we have in the United States is that they just sold the largest burley—the largest Maryland crop in many, many years at a price of

around $1.45, $1.50 a pound, and I am not exactly sure what the average was, but to me that seems to say to us that for Air-cured tobacco that is produced in the United States, that possibly is about the market level.

I know, too, how you feel about imports, and in your absence I spoke a little bit to that question, and I would like to emphasize to you that when we go to sell tobacco to the Japanese or to the Germans or to whoever, if you expect to sell some U.S. tobacco at $3 or $4 dollars a pound, you also have to be able to sell some offshore tobacco at $1 or $2 a pound, because those people are trying to get their average costs right.

It would make it very difficult for those of us who try to sell tobacco worldwide to only deal in U.S. tobacco.

The CHAIRMAN. Oh, I understand that. Sure.

Mr. BAILEY. Well, I believe a price freeze will help. It is not a total answer, but in the long haul it will help. It will put us maybe back in the ball game, pricewise, in the world market. As it is going now, we keep—the price of American-produced tobacco is getting completely out of line with the other world-priced tobacco.

Senator HUDDLESTON. Mr. Hillenmeyer, do you have any figures on how much of the foreign tobacco that comes into this country is resold to other foreign countries, rather than going into domestic manufacturers?

Mr. HILLENMEYER. Senator Huddleston, I do not. I do not know if Dr. Shuffett would or not.

Dr. SHUFFETT. No.

Mr. HILLENMEYER. Or maybe Mr. Kiger, who is going to testify later. I really could not speak accurately to the question.

Senator HUDDLESTON. We can get that figure, I am sure.

Mr. HILLENMEYER. USDA probably can produce it.

The CHAIRMAN. Well, we have another panel.

Senator HUDDLESTON. Thank you very much, all of you gentlemen.

The CHAIRMAN. We appreciate it. Thank you very much.

Since everything I eat ends up under my chin, anyhow, I am going to skip lunch and, with the forbearance of the panels that have not yet been heard from—let us see, what is the next one, George?

Mr. DUNLOP. Senator, the next panel is the second Flue-cured panel that we have here. Les Tindall; Lois Eargle, who is a State representative from South Carolina; Harry Bell, president of the South Carolina Farm Bureau; Laurie Lawson, the chairman of the South Carolina Agriculture Commission; S. T. Moore, president of the Virginia Farm Bureau; Jim Oliver, master, North Carolina Grange; and, Senators, farmer, Jim Canoy, a tobacco farmer from Randolph County who has asked to be heard.

The CHAIRMAN. Well, let me ask you folks, do you object to the schedule just to keep on rolling here and save you some time?

Ms. EARGLE. That is fine. We have to catch a plane.

The CHAIRMAN. Would that suit you all right?

Ms. EARGLE. Yes.

The CHAIRMAN. Fine. I see I lost my substitute chairman so——

Ms. EARGLE. If you need any help, I will help you out.

The CHAIRMAN. Without objection, a statement by the able Senator from Georgia, Mr. Mattingly, will be inserted in the record at the appropriate place.[1]

Mr. Tindal, we will be delighted to hear from you, sir. You may proceed.

STATEMENT OF D. LESLIE TINDAL, COMMISSIONER OF AGRICULTURE, STATE OF SOUTH CAROLINA

Mr. TINDAL. My name is Leslie Tindal, and I am commissioner of agriculture of the State of South Carolina, elected as a constitutional officer. I am grateful for the opportunity to appear before you today to present my comments on the proposed tobacco program.

Tobacco is South Carolina's principal cash crop and has been a part of our history for as long as we have existed. A little more than $1 out of every $5 in total farm marketings is from tobacco. Tobacco means a cash return to farmers in 20 of our 46 counties, but it is a primary crop in seven eastern counties in the Pee Dee area, part of the Flue-cured border belt which extends into our sister State, sir, your State to the north of us.

Over 25,000 jobs are provided in the production and marketing of tobacco, a mainstay in our economy. We are ranked third or fourth in the value of tobacco marketed in the United States; 58,000 acres were harvested in 1982. Total sales at our 40 tobacco auction markets amounted to $223,447,000 for the nearly 127 million pounds of tobacco offered.

While the turnover of the tobacco dollar amounts to the lifeblood of our towns and communities, the taxes on tobacco provide a vital source of funds on the national, State, and local level. Our tax commission tells us that tobacco taxes contribute well over $30 million each year to our State's economy. On the national level, the tax levies provide some $7 billion in revenues.

Our farmers recognize that we are faced with changes and challenges in the marketing of their crop, and they are prepared to meet these changes and challenges. They recognize that highest quality in production is an absolute must if we are to regain our position in the world markets, where we have been facing stiff competition from other countries.

Production practices emphasizing quality rather than quantity and using the most scientific methods of fertilization, weed control and other practices to produce the highest type of leaf are being promoted throughout the belt this year.

A "Premium Bright" campaign has been launched this spring and will be promoted by the land-grant universities, departments of agriculture, industry, news media and publications to bring about an awareness of the quality leaf most sought by the buyers and the consequent higher prices received by the growers for production of better quality leaf.

I have talked with many of our farmers who are strong supporters of a good program of Government control and recognize that such controls are necessary. At the same time, they see that changes in these programs such as the no net cost program enacted

[1] See p. 95 for the statement of Senator Mattingly.

by the last Congress are fair and will have the effect of alleviating the annual flood of complaints about the tobacco program by those who oppose it and basically do not understand it. The farmers feel that the program will need time to take hold, but the general feeling is that it is good.

They recognize, and have recognized for a long time, that the allotment program has had serious problems. A majority feel that a program to return allotment ownership to the producers is something which needs to be done. They believe, also, that a program must be designed to effect this return over the next 3 years, and can be established so that by 1986 full control will be in the hands of the growers.

The mechanics of the allotment system are intensely complex and involved and will need this period of transition to become a workable program. Any move to change established practices too abruptly can cause chaos.

The tobacco community also favors a price-support freeze and has expressed general agreement that the 1982 support price is the appropriate level to maintain.

One of the main aims of the tobacco industry is stability and in the face of the multitude of problems facing the tobacco farmer such as apparent changes in weather patterns, changes in production methods, changes in the marketing of the leaf, changes in the international competitive fields, he needs to have a stable base for pricing in order to be able to face the myriad other changes and challenges which he faces daily.

In summary, Mr. Chairman, yes, we support freezing support price for the 1983 and 1984 crops at the 1982 level; two, elimination of the double assessment; three, increasing new tobacco growers quota percentage from not more than 1 percent to not more than 3 percent; four, the use of Stabilization collected funds with the approval of the Secretary of Agriculture to eliminate or reduce Stabilization stocks, with the intention of operating the no cost program at no or low cost to the farmer; five, abolish the cash renting of allotments in 1984, and beginning in the crop year of 1986, all lease and transfer shall be abolished; six, the placement of certified graders at all ports of entry are requested.

I request that you give your most careful attention, sir, to the development of a sound program in which our tobacco farmer may produce the golden leaf so important to our State and many others and the Nation's economy.

Thank you, sir.

The CHAIRMAN. Thank you, sir.

Ms. Eargle, you may proceed.

STATEMENT OF LOIS EARGLE, A SOUTH CAROLINA STATE REPRESENTATIVE

Ms. EARGLE. Thank you, Mr. Chairman.

My name is Lois Eargle, and I serve in the South Carolina State Legislature, representing District 105, which is located in Horry County.

Mr. Chairman, I have never met you personally, but I feel like I know you because we get channel 6 and channel 3 out of Wilming-

ton, and I have heard a lot about you, both good and bad. [Laughter.]

Being a politician myself, I tend to maybe believe the good and question the bad, so it is a pleasure to meet you.

The CHAIRMAN. Hang in there. That is great.

Ms. EARGLE. Thank you for the opportunity to appear before you today. My remarks will be very brief, because the farmers that I represent—we support the recommendations of our able commissioner over here.

But I am very concerned about the future of the tobacco program. I represent the largest agriculture county in the State of South Carolina. Tobacco means the very existence of many families, and without the tobacco program, the welfare would certainly increase.

The tobacco program affects our entire economy. The U.S. expenditures for tobacco products were approximately $20 billion. There are approximately 75,000 people employed in tobacco manufacturing, and this represents millions in payroll dollars, and over 2,600 wholesalers distribute tobacco products.

In Horry County alone there are 4,441 farm allotments, representing an effective quota of 33,178,106 pounds of Flue-cured tobacco, the largest county in the United States. We are even bigger than Pitt County, N.C. How about that?

The CHAIRMAN. That is lot of tobacco.

Ms. EARGLE. Yes. There is a point that I would like to bring to your attention also, that I wish maybe in the future, near future, that we could pursue, and that is tobacco could someday be grown for human food. High-quality proteins can be concentrated from tobacco and used as food supplements. After these proteins are extracted, the leafy residue remaining could still be made into a material acceptable for cigarette manufacturing. Of course, there would be a difference in the way tobacco would be grown for food and the way that it is presently grown.

You may think that this is really far out, but let us look at the soybean. When it was first planted, it was used as feed for the livestock. Through research, it was found that when you ground those hard little beans up, there was an oil that was extracted, and today soybeans are used in every food item from hamburger meat to baby food. The tobacco program is vital in Horry County and is too valuable to the future economy of the United States.

One thing that really bothers me is that I feel there are too many who are making the laws which govern the farmer who have never seen a tobacco bed. They have no idea of the problems. They have never seen someone or done what you were talking about. You were talking about soaking tobacco, tossing tobacco. They have never really been down there and worked on the farm, saw the financial difficulties the farmers have.

I would love to see a law passed, Mr. Chairman, that in order to serve in the U.S. House of Representatives or the Senate, you have to spend at least 30 days on the farm. Too many of us think, when we go to the grocery store and all, that all those groceries just come out. We do not realize that 3 percent of this Nation is feeding the other 97 percent, and I think it is time that we got some credit for all of that.

There are billions of dollars paid to the Federal Government in taxes from tobacco and tobacco products. The tobacco program is helping to support the Federal Government, and I urge you to continue and strengthen the tobacco program. The future of the farmer in my area and my district depends on your support.

In closing, Mr. Chairman, I would like to give a letter to you that I wrote to the President on March 25, 1982. Now, I know that the Postal Service is slow, but I never did receive a reply, and I was wondering if there was any way that you could personally give him a copy of this? This just tells about the farming in its entirety. I would appreciate that.

The CHAIRMAN. I will tell him that one of the most effective witnesses we have had before the committee wants him to read this.

Ms. EARGLE. And I agree that you are a very intelligent Senator.

The CHAIRMAN. Thank you. I'll tell you, the trouble occurs when they start proving that on you.

Ms. EARGLE. Oh, is that right? Well, it has just gotten to the place that whenever my husband answers the phone, he says, "Well, she is not here, but would you like to leave a rumor?" [Laughter.]

The CHAIRMAN. I will tell you, I am not going to play one-upmanship with you. [Laughter.]

Thank you very much.

Mr. Bell, you are next.

STATEMENT OF HARRY S. BELL, PRESIDENT, SOUTH CAROLINA FARM BUREAU FEDERATION

Mr. BELL. Mr. Chairman, thank you so very much. Senator Huddleston.

I am Harry Bell, president of the South Carolina Farm Bureau Federation.

The task before us, as it relates to tobacco, is not an easy one. There has been a great deal of discussion regarding the tobacco program over the years, but as of yet, there is no unanimous agreement as to changes. However, a consensus among groups now seems to be within reach.

Relying on information from the U.S. Department of Agriculture, the South Carolina congressional delegation, South Carolina tobacco producers, and other farm bureaus in the Flue-cured Belt, the South Carolina Farm Bureau Federation Board of Directors, at the recommendation of our tobacco committee, voted to endorse and support the "Six Points," as outlined in the proposed "Principles for Tobacco Legislation."

Those points include the freezing of tobacco price supports for 1983 and 1984 at the 1982 levels, and beginning in 1985, if the current price-support formula computes at 5 percent or less of the 3-year-moving average of prices paid by farmers, including wage rates, interest, taxes, et cetera, the price-support level would be frozen for 1 more year, after which the new price-support level will provide for an annual increase of 65 percent to 100 percent of the regular formula beginning in either 1985 or 1986.

The second point, the elimation of the double assessment.

The third point, the increase in the new tobacco growers quota percentage of not more than 1 percent to not more than 3 percent.

The fourth item, the use of Stabilization collected funds, with the approval of the Secretary of Agriculture, to eliminate or reduce Stabilization stocks, with the intention of operating the no cost program at no or low cost to the farmer.

The fifth point, the abolishment of the cash renting of allotments in 1984 and beginning in the crop year 1986, all lease and transfer shall be abolished.

And, the sixth item, the placement of certified graders at all ports of entry.

I might elaborate on that particular point, sir. Much of the tobacco, we feel, that is coming into the United States now is not truly scrap tobacco. It is manipulated leaf tobacco, and I believe manipulated is the term that is being used, certainly by the ITC in their determinations.

Now, this policy is a reversal of previous South Carolina Farm Bureau recommendations in several areas, but we feel that the six points will be a reasonable compromise to a very complex issue.

We appreciate the opportunity to give you our views, and we would be happy to respond to any questions you may have.

The CHAIRMAN. Thank you very much.

Mr. Lawson, may we hear your testimony?

STATEMENT OF LAURIE LAWSON, CHAIRMAN, SOUTH CAROLINA AGRICULTURE COMMISSION

Mr. LAWSON. Senator Helms, Senator Huddleston, I am Laurie Lawson, chairman of the South Carolina Agriculture Commission, and I am pleased to be with you today.

It is my pleasure to discuss with you these new tobacco proposals, which all of us hope will strengthen our most important industry. The proposal to freeze price supports at once to the 1982 levels should aid greatly in making our tobacco more competitive in worldwide markets and reversing the downward trend in tobacco quotas. This action should lead to increased production quotas in future years.

Eliminating the double assessment is a move that is very welcome, and, in my opinion, it should never have been in effect for 1983.

Increasing the new tobacco growers quota percentage will make it easier for a nontobacco farmer to get into the business.

The proposal to let Stabilization use the no net cost tobacco funds in any way Stabilization sees fit should make Stabilization run more efficiently with a corresponding decrease in additional funds needed from farmers. Stocks of tobacco should soon be reduced substantially, and hopefully within a short timeframe there will be no cost to the farmer.

The proposal to end cash renting of tobacco allotments and the phasing out of lease and transfer of tobacco allotments will probably result in tobacco farmers once again controlling tobacco production without having to put out huge sums of money before beginning the crop year. I foresee real tobacco farmers being able to

purchase allotments at a reasonable price if they want to farm more tobacco.

We must have tobacco grown by farmers who know how to produce that good premium bright leaf that has such a great demand throughout the world, and we must produce it efficiently so that we can compete in the domestic market and the world market.

We appreciate all of the hard work that has gone on and is going on in the Congress of the United States in trying to work out a satisfactory plan to keep our fine tobacco program healthy. We stand ready to help you as you attempt to finetune this program for the benefit of tobacco farmers from our area.

Thank you very much.

The CHAIRMAN. Mr. Lawson, thank you very much.

Dee, sitting to your right is a distinguished citizen from North Carolina, Jim Oliver, who is master of the North Carolina Grange. I do not know whether you know Dee or not.

Mr. OLIVER. No. I am certainly glad to meet you, sir.

Senator HUDDLESTON. You know, Jesse, one thing I have noticed about all of our tobacco area folks and another thing that makes me like them all better is none of them have an accent.

The CHAIRMAN. That is right. [Laughter.]

Jim, it is good to have you here. I always appreciate the opportunity to work with you.

Mr. OLIVER. Thank you, Senator. And, Senator, you have not heard my accent yet, so you may have to withdraw that statement.

The CHAIRMAN. Please proceed.

STATEMENT OF JIM OLIVER, MASTER, NORTH CAROLINA GRANGE, RALEIGH, N.C.

Mr. OLIVER. Mr. Chairman, Senator Huddleston, I am Jim Oliver, a farmer from Fairmont, Robeson County, and so close to South Carolina that on occasion Commissioner Tindal has threatened to claim me as one of his South Carolinians.

I am master of the North Carolina State Grange, and newly appointed chairman of the Agriculture Committee of the National Grange. My statement today will be for both the National Grange and the North Carolina State Grange.

Mr. Chairman, I would like to give you and the committee the position of the National Grange and North Carolina State Grange on the five principles the tobacco legislation, as proposed by the House Subcommittee on Tobacco and Peanuts.

Principle No. 1, freeze price supports in 1983 and 1984 at the 1982 levels, and beginning in 1985, if the current price support formula computes at 5 percent or less as a 3-year-moving average of prices paid by farmers, including wage rates, interest, taxes, and so forth, the price-support level will be frozen for 1 more year, after which the new price-support level will provide for an annual increase of 65 to 100 percent of the regular formula, beginning in either 1985 or 1986.

We recommended changing as it was proposed, 50 percent, to 65 percent.

The Grange, since 1975, has recognized and been concerned with the price-support formula for Flue-cured tobacco. At the annual

session of the North Carolina State Grange in October 1976, the Grange adopted the following resolution:

The State Grange calls on all concerned farm organizations and all segments of the tobacco industry to work together to take the necessary actions to revamp the price support formula and structure, so as to prevent excessive quantities of any grades of tobacco from going under loan, and prevent the pricing of U.S. Flue-cured tobacco out of export and domestic markets.

The National Grange also adopted this policy in 1980. Perhaps, Mr. Chairman, if we had taken action in 1976, or even in 1980, we would not find ourselves in our present position. However, no action was taken, and in October 1982, the North Carolina State Grange, at its annual session, adopted the following policy:

The North Carolina State Grange takes the position that the 1983 basic Flue-cured tobacco quota be maintained at the 1982 level of 1.013 billion pounds, and that the price support for 1983 be frozen at the 1982 level of $1.6990 per hundredweight for a period not to exceed 2 years.

I might add, Mr. Chairman, that we were the first organization to take this position and were joined the following day by many tobacco-related industries.

The National Grange adopted this same policy at its annual session in November 1982. We felt that the two should be tied together, as it would be too great an economic strain on the producer to take a cut in quota and hold the support price at the 1982 level.

As you know, Mr. Chairman, the quota was cut by the Secretary of Agriculture 10 percent for the 1983 crop. However, it can be restored without legislation at any time by the Secretary.

Freezing the price support for 2 years will provide many positive results for the tobacco program. First, the 2-year freeze in the price support should result in a leveling of the price for a period of 5 years. As you know, the formula is based on several factors, including interest rate, cost of production, inflation rate, and so forth. The basis for the 1983 support rate of $1.7860 per hundredweight includes the high interest rate, high inflation rate, and high production costs of 1980 and 1981.

In 1982, we saw a decline in the interest rate and inflation rate, and a leveling off of production costs. Therefore, a freeze of the support price for the 1983 and 1984 crops would eliminate the high cost of the 1980 and 1981 crops and tend to level the support price for a total of 5 years. I have been informed that if this were to happen, some of our foreign buyers would return to the U.S. market for their Flue-cured tobacco needs.

Second, and one of the most important benefits of freezing the support price is the increased production of quality tobacco. Quality is the most valuable asset of our tobacco program. The tobacco farmer will be required to do a better job of management and produce a higher quality of tobacco, thereby reducing the amount of tobacco going into Stabilization stocks, in order to overcome the price-support freeze.

Hopefully, through the combination of a stable price and better quality, we will be able to regain some of our lost domestic and foreign markets.

Principle No. 2, beginning in 1984, eliminate the double assessment. The Grange was and still is a very strong supporter of the No Net Cost Tobacco Act of 1982. However, we did not support the

so-called double assessment provision of the act. It has resulted in higher lease rates as allotment holders in most cases have passed the assessment to the lessor through the lease price. The lessor will again pay the assessment when he sells his crop next fall, unless provisions are made to correct the situation.

We recommend the elimination of the double assessment for the 1983 crop. However, if it is administratively impossible for 1983, we strongly endorse the elimination of the double assessment beginning in 1984.

Principle No. 3, increase the new tobacco growers quota percentage of not more than 1 percent to not more than 3 percent of the national quota. If the quota is increased to 3 percent, we recommend that 2 percent of the 3 percent be designated for new tobacco growers, and that the rules and regulations in effect today for determining new tobacco growers remain in effect and be strictly enforced.

This policy was adopted by the tobacco committee of the North Carolina State Grange.

Principle No. 4, no net cost tobacco funds, Stabilization collects from the farmer, may be used in any way Stabilization sees fit, with the approval of the Secretary, to eliminate or reduce Stabilization stocks in 1982 and on, with the intention of operating the no cost program at no cost to the farmer.

Stabilization should be treated as any other cooperative operating price-support program under regulations issued by the Secretary of Agriculture. It is anticipated that by the end of the 1983 season, approximately $100 million in assessments will have been collected by Stabilization Corporation. We should be allowed to use these funds to reduce our costs, and not be forced to placed these funds in interest-bearing accounts, and then have to turn around and have to borrow additional moneys at a higher cost.

Again, this policy was adopted by the North Carolina State Grange Tobacco Committee.

Principle No. 5, and I will break that down into the five paragraphs as it was proposed, Senator.

Principle No. 5, paragraph 1, beginning in 1984, cash renting of allotments is abolished. Allotment owners must share in the risk of producing the tobacco crops, even if they lease and transfer.

Paragraph 2, beginning in the crop year of 1986, all lease and transfer shall be abolished. The holder of any Flue-cured allotment beginning in the 1986 crop year may either: One, grow his or her allotment himself as an active grower on the land to which the allotment is assigned; two, rent or lease the allotment to one who qualifies as an active grower with allotment to be grown on the land to which it is assigned; or, three, sell the allotment to an active grower from the same county.

Paragraph 3, in case such allotment holder exercises option No. 2, the rental agreement must be such that the said allotment holder shares in the risk of producing the crop. For purposes of this section, such allotment holder shall be deemed to share in the risk that the full and complete consideration he receives for the allotment and quota is an agreed-upon percentage of the net proceeds of the tobacco sold by the said lessee representing the quota covered by said allotment. Net proceeds shall be defined as gross proceeds

of the sale, less the no net cost assessment charged against said quota at the warehouse at the time of sale.

It is further provided—paragraph 4—that such rent shall not be paid until after the tobacco is sold. In the case of tobacco lease, pursuant to this section, signed agreement shall be filed in the appropriate county ASCS office. The agreement shall specify the percentage of the proceeds of the crop to be paid as rental, and shall contain a verified statement that such percentage of the proceeds represents the full and complete consideration paid by the lessee to the lessor for the said allotment, and that no additional consideration, direct or indirect, has been paid or agreed to be paid.

And, paragraph 5, penalty for knowing and making a false statement regarding the rental paid shall be loss of allotment on the part of the allotment holder, and loss of support price on the part of the grower of all tobacco sold by him for the crop year involved, and we recommend adding "or the following year."

Now, Senator, I would like to comment on paragraph 5. The Tobacco Committee of the North Carolina State Grange strongly endorses paragraphs 1, 3, 4, and 5 of principle 5. The only thing we do not strongly endorse is the elimination of the lease and transfer. We have long advocated lease and transfer.

However, we also feel that the provisions of paragraphs 3, 4, and 5 should apply to paragraph 1 beginning in 1984, and that is the penalties if you do not share in the production of the crop.

In regards to paragraph 2 of principle 5, we have not taken a position in favor of abolishing lease and transfers. However, in the wisdom of you and your colleagues, if this is necessary, the Tobacco Committee of the North Carolina State Grange requests that if lease and transfer must be eliminated in order to strengthen the tobacco program, that it begin with the 1987 crop or later, in order for tobacco growers to make the necessary financial arrangements to comply with the new law.

This change will affect many growers in all parts of the tobacco producing States, and growers must be given adequate time to make these adjustments. Also, with regard to paragraph 2 of principle 5, we recommend that an additional sentence be added as follows:

If one of the three options described above is not taken by the holder of a Flue-cured allotment, the allotment will be forfeited to the county ASCS office for redistribution within the county.

In paragraph 3 of principle 5, we recommend the following wording of the last sentence:

Net proceeds shall be defined as gross proceeds of the sale, less the no net cost assessment charged against said quota at the warehouse, and all other charges, such as grading fees, warehouse charges, tobacco associates, and so forth, at the time of sale.

Mr. Chairman, it is the opinion of some that we should do nothing about the program for 1983 crops. I simply ask this question: Why will the companies buy our 1983 crop with a support price of $1.7860 per hundredweight, when they did not buy approximately 26 percent of the 1982 crop, the second smallest crop in history, at a support price of $1.6990 per hundredweight?

I personally feel that if some changes in the tobacco program are not made for the 1983 crop, Stabilization receipts will be in the 30-

to 50-percent range, and the 1984 assessment to the farmer will be at least 20 cents per pound. A further reduction in quota will be necessary for 1984, and as the quota continues to be reduced and the price continues to escalate, we will self-destruct. It is that simple.

Every foreign tobacco buyer that I talked to last season was very emphatic in telling me that our Flue-cured tobacco was too high, and I believe it.

In conclusion, Mr. Chairman, the Grange strongly believes that in discussing the five principles discussed above, the recommended changes will provide us with the necessary means to solve both the short-range and long-range problems and make our tobacco program sound, both economically and politically, for the future.

We appreciate this opportunity to appear before you and the committee and hope we have been of assistance to you.

Thank you.

The CHAIRMAN. You have, and I, on behalf of the committee, appreciate your exhaustive study of this. You have been very helpful.

Mr. Canoy, we welcome you, sir. I believe you know what it is to grow tobacco.

Mr. CANOY. Oh, yes. I was raised on a tobacco farm.

The CHAIRMAN. We are delighted to have you here.

STATEMENT OF JAMES CANOY, TOBACCO FARMER FROM NORTH CAROLINA

Mr. CANOY. Senator Helms, Senator Huddleston, I am proud to be here to testify before you. Now, I am not going to testify to your six point program here because I totally disagree with it. I would like to read my statement, with your permission, sir.

Thank you, Mr. Chairman, and members of the Agriculture Committee for allowing me this opportunity to testify before you today.

I am a tobacco farmer from Randolph County, N.C. I believe that I am testifying for the small family tobacco farmer. I have been active in the tobacco program for many years. I have attended every kind of tobacco meeting and hearing all over the Flue-cured tobacco belt. I have talked with hundreds of tobacco farmers. I have heard about every cure there is to fix the program. In fact, I can almost tell you the size of allotment a person has by the fix he has for it.

As family tobacco farmers we have just been fools, watching our world market slide from 40 percent of the world market in 1975 down to 12 percent of the world market in 1982. The only reason for this loss of exports, pure and simple, was to protect the absentee allotment holders who do not do the farming. Every time any legislation comes up, it is to help the nonproducer allotment holder. Three more years of this program and we will have about 5 percent of the world market. The North Carolina Farm Bureau is a very good insurance company but I am darn full of them running up here to Washington and telling Senators and Congressmen they represent the family tobacco farmer when all they are doing is looking out for the big nonproducing allotment holders.

Gentlemen, after listening to all of the hundreds of sure fixes people have for the tobacco program down South, and after listen-

ing to the testimony today, there is only one fair and simple way to fix this program, put it on a free market. A free market will be fair to anyone who wishes to grow tobacco. Young farmers and old farmers, large farmers and small family farmers will prosper and will put us back in the world market and get the Government and the Farm Bureau out of the farmers business. A free market will let young families into this wonderful business without being deprived of their hard earned profits. Families will once again be able to own their own farms.

Senator, with your permission, I have a statement here from the United Tobacco Growers that was voted on June 1, if I might read it to you, sir.

Senator HELMS. Certainly, yes, sir.

Mr. CANOY [reading]: "At the beginning of the 1984 crop year, each actual producer of tobacco shall have the choice of either growing and selling quota tobacco with price supports at the level set at the present price support formula or selling nonquota tobacco with no price support and no restrictions, or failure to achieve the above, we favor deregulation of the tobacco program with the 1984 crop."

The motion passed unanimously by the United Tobacco Growers and it is signed by the secretary and the president and I will leave a copy with you, sir.

Senator HELMS. Very well.

Mr. CANOY. I will be happy to answer any questions, if they do not throw rocks at me.

Senator HELMS. There will be no rocks thrown at you. We are delighted to have your testimony.

Mr. Jenkins, we would like to hear from you, sir.

STATEMENT OF J. M. JENKINS, JR., CHAIRMAN, FLUE-CURED TOBACCO COMMITTEE, VIRGINIA FARM BUREAU FEDERATION

Mr. JENKINS. Mr. Chairman, Senator Huddleston, my name is Jordan M. Jenkins, Jr., of Blackstone, Va., and I am a Flue-cured tobacco grower as well as chairman of the Flue-cured Tobacco Committee and a member of the board of directors of the Virginia Farm Bureau Federation.

We have gotten a good history lesson today here and I think that all the facts and figures that are possible to come up have come before this group so I am not going into details and background on the situation that we find ourselves in under the no net cost legislation and tax on the program and the other concerns that have come up.

My main testimony is that I would like to convey to you our support for the concensus agreed upon at the May 17, 1983, hearing of tobacco leaders that was held in conjunction with you and Congressman Rose. These 5 points are agreed to by the Virginia Farm Bureau Federation, representing the farmers. We may not agree 100 percent on everything but after about 8 years of going up and down the road and working on this problem in tobacco production, we feel this is the closest we are going to get together on it and let us hit it now.

We are mindful, of course, of the unique dangers always associated with tobacco legislation but we feel that to do nothing to correct it will bring even greater problems and involves dangers both externally and internally, which are far more dangerous and certain.

At this point I would like to bring in another item. Many people in this room are probably not aware of another type of tobacco, Virginia type 21, Dark-fired tobacco, which is only grown in the State of Virginia and I have here a letter which was entered into the record and I would like to enter it today, from Mr. S. T. Moore, Jr., president of Virginia Farm Bureau Federation, expressing the concern of three groups: Virginia Dark-Fired Tobacco Growers Marketing Association; Virginia Dark-Fired Tobacco Commission; and the Virginia Dark Tobacco Sales Cooperative. There is an impact between types of tobacco and if there is legislation regarding a freeze on prices, they would like to be included, also, to prevent problems that they see down the road and this is entered in the letter.

The CHAIRMAN. Without objection, the letter will be included in the record at this point.

[The letter furnished by Mr. Jenkins follows:]

VIRGINIA FARM BUREAU FEDERATION,
Richmond, Va., June 13, 1983.

Senator JESSE HELMS,
Chairman, Senate Committee on Agriculture, Nutrition, and Forestry, Russell Senate Office Building, Washington, D.C.

DEAR CHAIRMAN HELMS: Pursuant to the Senate Agricultural Committee Tobacco hearing on June 14, 1983, I am pleased to submit the following comment regarding Dark-Fired type 21 tobacco.

Virginia type 21 dark-fired tobacco is only grown in the state of Virginia and we are aware that changes in the pricing mechanism applied to Flue-cured tobacco will eventually impact on the utilization of type 21 tobacco.

Therefore, if legislation changes are made pertaining to freezing the price for flue-cured tobacco as outlined in point one of the "Principals For Tobacco Legislation", we think it would be in the best interest of Virginia Dark-Fired type 21 that this legislative item be expanded to include Virginia type 21 tobacco.

The inclusion of Virginia type 21 in this proposed legislation has the support of all dark-fired type 21 tobacco organizations in Virginia. They are as follows: Virginia Dark-Fired Tobacco Growers Marketing Association; Virginia Dark-Fired Tobacco Commission; and the Virginia Dark Tobacco Sales Cooperative.

The Committee's consideration of our position on this matter is appreciated.

Sincerely,

S. T. MOORE, Jr., *President.*

Mr. JENKINS. Now, one thing you have alluded to, Senator, was maybe lack of testimony on some of these other things, including imports and the Caribbean Basin Initiative problems. We do not feel that it is unimportant but at this point we feel that this is what we are working with and we have not forgotten imports and if you thought you could introduce some legislation to cut it out, we are with you but we do not feel it is feasible at this point to drag it into these hearings. It is something that we have to work with continuously and maybe we will see a light at the end of the tunnel somewhere along the way but we consider it just as important as you do and have tried to stay just as aware as possible.

We appreciate the opportunity to convey the views of Virginia Farm Bureau today and we urge you to move ahead with tobacco legislation and I am available for any questions. If I cannot answer them I will tell you in a minute.

The CHAIRMAN. Senator Huddleston?

Senator HUDDLESTON. Let me ask one question here. The suggestion has been that with a freeze there still will be some bridge back to an escalating price support based on cost and you gave a formula to us. Is that what we have in the present law or are you suggesting a different formula for determining what the price-support level should be, what the increase should be?

Mr. BELL. Yes, Senator. Go back to what the present formula is.

Senator HUDDLESTON. The present formula.

Mr. BELL. Yes.

Senator HUDDLESTON. Is there any thought that the formula ought to be adjusted to focus in on actual cost of tobacco production rather than the manner in which it is determined now, which probably would result in a smaller increase in the price support?

Mr. BELL. We, within the South Carolina Farm Bureau have not discussed that in any detail, sir.

Senator HUDDLESTON. Do you have any view on that?

Mr. OLIVER. Sir, we have discussed that in the North Carolina State Grange and we feel that we should not change the formula as it is now constituted.

Senator HUDDLESTON. The same formula. Thank you.

I might be interested in the fellow here who wants to eliminate the program and it would be nice to allow everybody to grow tobacco. We could do that. We could let everybody grow it but we cannot assure that they can sell it. What is your proposal on that?

Mr. CANOY. Well, Senator, I am going to be obnoxious about this. They all pay their taxes to the same Government, do they not? Why should one area have the freedom that the others do not have? That is my philosophy on that. I do not believe in giving one firm an advantage that another one does not have and in my heart I just cannot do that. I just cannot say, "Well, I am going to take from this one and give to the other one."

Senator HUDDLESTON. I can understand that but if you have a system where anybody can grow, who wants to grow? With no control on production, then you have no way to assure that there is going to be any sale of that product.

Mr. CANOY. I understand your point.

Senator HUDDLESTON. There is not much compensation or consolation in growing something that will not sell.

Mr. CANOY. Well, what we are doing, we are sitting here kidding ourselves and letting those people over there in those foreign countries just keep shooting it over here at us and we are really being selfish about it and just saying, "We are not going to grow but just so much of it for a certain price." So, we are going to dwindle down to nothing just being selfish like that.

Senator HUDDLESTON. Thank you.

Mr. OLIVER. Sir, I might point out in this regard, take a look at our wheat farmer and corn farmer today when they grow what they please and they cannot give it away. Do we want to put ourselves, as tobacco growers, in that same position? I do not.

Senator HUDDLESTON. Yes, sir?

Mr. BELL. Senator, I might add that the tobacco producers voted, not too many months back, by in excess of 90 percent, to retain the program, not to do away with it.

Senator HUDDLESTON. That is 90 percent, huh?

The CHAIRMAN. Gentlemen and lady, we certainly appreciate your coming and your patience. We thank you very much for the time that you have spent and the thought that you have given to the problems common to all of us.

The final concluding panel, to which we extend our apologies, is Mr. Wayne, Mr. Bond, Mr. Kiger, and Mr. Myers. If you will come up? I am going to stay until the five bells ring.

Why do we not go in the order that is listed on the agenda here? We welcome all of you and appreciate your coming.

Hugh, come on up here and sit close to me. [Laughter.]

Incidentally, let me apologize for the voting confusion today. We had no earthly idea it would be this kind of day, when this meeting was scheduled, but that is the risk we run.

You may proceed, Mr. Wayne.

STATEMENT OF KIRK WAYNE, PRESIDENT, TOBACCO ASSOCIATES, INC.

Mr. WAYNE. Thank you, Mr. Chairman. I am Kirk Wayne, president of Tobacco Associates, Inc., headquarterd at 1101 17th Street, Northwest, in Washington, D.C. Other offices are maintained in Raleigh, N.C., and Dillon, S.C.

Tobacco Associates was organized in 1947 and is financially supported by the tobacco growers in the five Flue-cured tobacco producing States. The primary purpose of the organization is to represent the U.S. Flue-cured tobacco growers in promoting, developing, and expanding world markets for U.S. Flue-cured tobacco. Consequently, our activities and foreign operations are varied and have extended to most quarters of the globe.

We wish to commend you, Mr. Chairman, and members of this committee, for your diligent efforts to preserve a sound tobacco program.

In our view, the export market will continue to be the difference between profit and loss for the U.S. tobacco growers. Maintenance of a sound tobacco program is vital in fostering this important export market.

You are aware that Tobacco Associates is not a policymaking organization. However, we do feel that by virtue of our extensive international involvement we can shed some light on global factors influencing the exportation of American-grown tobacco.

There is currently a world glut of Flue-cured tobacco. Estimated 1982 world Flue-cured tobacco production of 7.5 billion pounds farm sales weight, is up 15 percent over the 1981 world production level of 6.5 billion pounds. China, India, Brazil, Zimbabwe, and Argentina led the growth in world Flue-cured output last year.

World cigarette sales are growing at the very low rate of less than 2.5 percent annually. Several factors are influencing this low growth rate. One is sluggish economies. Two, depressed consumer buying power. Three, increased taxation on cigarettes. And, four, increased antismoking activity.

Additional factors depress further the demand for leaf tobacco. One, advancing technology in the manufacture of cigarettes requires less tobacco. Estimates are that the amount of tobacco re-

quired per pack of cigarettes manufactured in the United States has fallen 1 percent per year for the last 20 years. Two, economic considerations have forced manufacturers to reduce longevity of leaf stocks.

I wish to now briefly outline major obstacles confronting U.S. exports. One, well over one-half of the world's population is removed as a market because of purely political reasons. I refer principally to Russian and the Eastern bloc countries. More recently, for political reasons, we have been excluded from the markets of Syria, Lebanon, Jordan, Libya, Iran, and Vietnam.

Availability of hard currency is also a restricting factor in most of these countries and additionally in the People's Republic of China. The majority of African nations do not have the economic base nor the infrastructure to utilize quality American leaf. Trade policies of the major tobacco consuming countries of Latin America preclude importation of tobacco.

I wish to now outline major competitive disadvantages that confront U.S. tobacco producers. One, tobacco from Malawi, Tanzania, Zambia, and Zimbabwe enter the European Economic Community duty free. The 1982 Flue-cured production in these countries totaled more than 276 million pounds, farm sales weight. This product level of tobacco available to the European Community duty free is an amount equivalent to 55 percent of total 1982 U.S. Flue-cured exports.

The European Community also has an annual quota of 135 million pounds for purchasing Flue-cured tobacco from eligible developing countries at lower duty rates than applied under the most-favored-nation status.

Second point: Subsidies which influence export prices are used in a number of important Flue-cured exporting countries, including Argentina, the European Community, Korea, and Canada.

The U.S. producers market tobacco in U.S. dollars, the world's strongest stabilizing currency. Our major competitors price their tobacco in "soft" currencies subject to frequent and sharp devaluation against the U.S. dollar and against other currencies of major importing countries.

I wish to use two quotes to demonstrate the significance of this factor. The first quote is taken from the Zimbabwe Tobacco Association quarterly bulletin of March 31, 1983, on page 4, and I quote: "There is no doubt that the twenty percent devaluation in December last year has been of help to the tobacco industry. It has made the stockpile look more attractive, bringing the prices in line with our competitors and enabling our exporters to move stock which had looked too high-priced previously. An informed assessment in banking circles believes that devaluation will help the sales prices when the tobacco auctions commence on 6th April, 1983. It should be remembered that tobacco brings in nearly a quarter of Zimbabwe's total agricultural income, earns twice as much cash as sugar, five times as much as cotton, and ten times as much as maize."

The second quote is taken from the principal address before the Tobacco Associates 36th annual meeting held in Raleigh on March 16, 1983, by Mr. R. J. Pritchard, director, leaf and production, Brit-

ish American Tobacco Co., London, England, and I quote, "Whilst inflation is high in Brazil, the system of currency devaluation keeps tobacco competitive."

The fourth point is another currency-related disadvantage, and that is government to government granting of preferred exchange rates. I have seen evidence of tobacco sales transactions whereby the selling country was given an exchange rate as much as two-thirds greater than the official rate applied to U.S. dollars.

We applaud the legislative points under consideration as being needed and the proper signal for our world customers. However, I wish to point out that the global political, economic and monetary problems highlighted in my testimony will, in my opinion, prevent any immediate alteration of world demand for U.S.-produced tobacco.

Thank you for the opportunity to bring these points before you, and I would be pleased to respond to any questions you may have.

Mr. DUNLOP. At this point, let me ask Mr. Myers—you related to me earlier, I believe, that you have a severe time constraint. What is that time constraint?

Mr. MYERS. I may have already missed it, Mr. Chairman. It is 3:15, and I do not see a lot of hope from here, so proceed as you would. I will take a later plane.

Mr. DUNLOP. Very well. Fred Bond is the manager of the Flue-Cured Tobacco Cooperative Stabilization Corp., in Raleigh.

Fred, we would like to hear from you.

Mr. BOND. Mr. Dunlop, I have a brief statement that I filed. There are a couple of points that I would like to make in connection with the statement.

Mr. DUNLOP. Your statement will be inserted in the record.[1]

STATEMENT OF FRED G. BOND, GENERAL MANAGER, FLUE-CURED TOBACCO COOPERATIVE STABILIZATION CORP.

Mr. BOND. No. 1 is, going back to October, the stabilization board of directors is suggesting that there be a freeze in 1983 at the 1982 level. That policy was amended because of the time constraints possibly that it could not be done in 1983 at the 1982 level, that we proceed immediately for the 1984 crop and 1985 crop stabilization at the 1983 level. That is our position there.

And, of course, not in this statement, we would suggest strongly that the present language regarding use of the no net cost funds be changed to permit more flexibility as we go into the season further, and that is a point that we have been—has been discussed, and the board has gone on record as asking that the language in the present law be made more flexible, and that is all the comment I have at this point.

Mr. DUNLOP. Mr. Myers You are next.

STATEMENT OF WILLIAM O. L. MYERS, MANAGING DIRECTOR, BURLEY STABILIZATION CORP., KNOXVILLE, TENN.

Mr. MYERS. For the record, I am Bill Myers, managing director of Burley Stabilization Corp., Knoxville, Tenn.

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[1] See p. 123 for the prepared statement of Mr. Bond.

Mr. Chairman, on behalf of the officers and directors of Burley Stabilization Corp., we appreciate this opportunity to appear before this distinguished committee and share our concern regarding some critical issues that confront the entire tobacco industry and how they relate to us.

The association I represent administers the price-support program for some 140,000 burley tobacco producers in Tennessee, western North Carolina, and southwest Virginia, and, I might add, we have 19,000 growers in western Carolina, Mr. Dunlop.

Total burley sales across the Belt for 1982 were approximately 773 million pounds. We have one or two reports that show 800 million. Perhaps some consideration would need to be given there for resales, but with this unusually high volume of tobacco came some problems which must be addressed and for which solutions must be found if we are to continue as a viable industry.

We considered the No Net Cost Tobacco Program Act of 1982 to be a necessary step in the right direction and were supportive of the intent of the act, which was to implement changes that would strengthen the tobacco program and to assure no net cost as, of course, is indicated in the title of the act itself.

We agree with those who contend that now is the time to go back to the drawing board and take a look at some new areas of concern and the proper course of action needed to further strengthen the tobacco program.

In the interest of saving time, I shall limit my remarks to only those areas which are, in my opinion, of primary importance to the tobacco industry as a whole and, more specifically, to the burley producers in the three States represented by our association.

First and foremost, I think, and these hearings perhaps will bear this out, is the price support level for tobacco. Burley Stabilization Corp., is on record in support of authorizing the Secretary of Agriculture to adjust downward by 35 percent the burley loan rates which would otherwise have been applicable to the 1982 crop.

Believing, Mr. Chairman, as I do, that there is strength in unity, we wish other friends of ours could have supported that last year, but we respect the fact that they had a differing opinion. We felt that was a step in the right direction, and we so moved. This modest reduction, however, of 35 percent of the normal increase did not accomplish the desired result, as evidenced by the fact that the two burley loan associations received almost 269 million pounds of burley tobacco, or approximately one-third of the entire crop.

In addition to the quota tobacco, burley growers across the Belt placed another 32 plus million pounds in the excess poundage carryover program, which has now been discontinued for the 1983 crop and subsequent crop years, as announced by the Secretary. Incidentally, we consider this to be appropriate action, as we were not in favor of reactivating the carryover program. We saw some inequities in that, and we are glad that the announcement has now been made. We think it will help us.

In a recent meeting the board of directors of Burley Stabilization Corp., voted in favor of freezing price supports in 1983 and 1984 at the 1982 level, and hope it will be adequate. We consider this to be a very necessary second step. The 35-percent reduction in normal

increase last year we consider to be an important first step. We consider this to be a very necessary second step in controlling the spiraling prices and hope it will be adequate in meeting the desired goal.

Of importance to burley also is the limit on quota reduction. We feel that an important vehicle for assisting in control of burley supply and demand was lost when Congress enacted legislation to limit cuts of the national quota and the individual farm quota to 5 percent of the previous year's quota. We agree with the statement by Secretary Block in his report of July 1982 to the U.S. Senate on the no net cost tobacco legislation that the 5 percent limitation on burley tobacco quota reduction is too narrow. We support the action taken by the Council for Burley Tobacco that this limit be raised to 15 percent.

A problem that we need to address also and consider is the lease and transfer provisions. We have not had the serious problems that Flue-cured has, but we see these coming over the mountain. Perhaps it is time to start looking at some of these.

In an effort to encourage burley producers to plant within their effective quota, we supported the position taken by the Council for Burley Tobacco in a recent meeting that lease-in be limited to 15,000 pounds. We felt this was a step in the right direction, and all that could be accomplished under the prevailing circumstances.

However, there is ample evidence to support the fact that excessive production and an unusually large quantity of carryover tobacco in 1982 were the result of many growers knowingly planting and producing burley tobacco without sufficient quota to market such tobacco, and without having made arrangement to secure quota from other owners in the same county. In view of these and other inequities in the current lease and transfer arrangement, we would look with favor on some stronger methods of control. Regulations may need to be amended to either eliminate lease and transfer during the marketing season or to place restrictions on such leasing.

Peculiar to burley, that Flue-cured growers do not have, is the problem of packaging in preparation for marketing. We need to address this, as we have in the past, and we need to continue to do so. This may not be relative to the hearings here, Mr. Chairman, but I would like to read this into the record, if I may.

In order to enhance the quality of burley tobacco, improve efficiency and cost in processing and eliminate problems related to the type of carrier used, we strongly favor a uniform method of packaging burley tobacco, a departure from the three methods of packaging which were in effect last year.

Finally, and perhaps of most importance to organizations like Mr. Bond's and mine, is the reduction in Stabilization stocks. We have heard alluded to here the fact that freezing prices might have an adverse affect and lock in Stabilization stocks. That, of course, is a distinct possibility, however, we think to do nothing may be a worse act.

The 1982 burley tobacco crop reversed a trend of short supply and low pool stocks that had been noticeable for some years. In 1980, for instance, I jokingly told one of my good buyer vice presidents that I believe I could have sold him a bale of hay for $1.66 if

we could have set it beside a good basket of burley, so that was an extremely short year for us, Mr. Chairman. We got a little spoiled on those low supplies.

As indicated earlier, however, in my remarks, the two loan associations now have on hand a considerable amount of good quality burley tobacco which will soon be available for sale. We are presently working up price recommendations, which will be made to the Department of Agriculture Tobacco Division. We do not see these as being out of line, if there is any market for burley tobacco. We are going to be looking at that very closely and the market doesn't seem to be there.

We are extremely interested in any and all channels which might be utilized in helping to reduce these excessive loan stocks. I am referring here, of course, to, and I am in touch with the Department on programs such as the barter. We moved a lot of tobacco under the barter arrangement. That was discontinued, perhaps at the direction of the President, a year, or so ago, or a few years ago. We should, perhaps, look at that again, and maybe the Public Law 480 program. Whatever channel is available, Mr. Chairman, we would like to explore that and see if there is any way that we can move the tobacco stocks we have.

Market assessment fees as provided for in the No Net Cost Tobacco Program Act of 1982 was intended to underwrite any future losses. However, high interest rates on large loans place an urgent need for inventory reduction and, considering the supply and demand situation, both in the domestic and foreign markets, we do not see the prospect for movement of burley tobacco in any quantity in the near future.

Thank you, Mr. Chairman. We appreciate this opportunity to read our remarks into the record.

Mr. DUNLOP. I am very glad you came and I am sure the questions that we have will be—we look forward to some further exploring some of these things with those.

Dr. Kiger, your statement will appear in the record.[1]

STATEMENT OF HUGH C. KIGER, EXECUTIVE VICE PRESIDENT, LEAF TOBACCO EXPORTERS ASSOCIATION & TOBACCO ASSOCIATION OF UNITED STATES

Dr. KIGER. Thank you, George. My name is Hugh C. Kiger. I am executive vice president of Leaf Tobacco Exporters Association & Tobacco Association of United States.

George, you can indicate to the chairman that I commend him for his fine leadership of the Senate Agriculture Committee. As you know, he and I have had some minor differences on small problems. However, I want to indicate that I fully concur in his general concept of the free enterprise system and market orientation. I have filed a complete statement with you for the record. It is similar to the statement which we made before the House Committee earlier this year, and fairly similar to the statement which we made in the spring of 1982 in Raleigh.

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[1] See p. 125 for the prepared statement of Dr. Kiger.

Members of the two associations which I represent purchase about 70 percent of the U.S. tobacco crops and export practically all of leaf moving to overseas markets. Over the years, our associations have supported the tobacco program. We continue to support a tobacco program. However, we feel that the current program must undergo significant changes if it is to survive.

The program is in trouble, and it is critical that changes be made now. We have been losing our share of world production and trade, as has been indicated by others earlier.

In 1973, our domestic use was 703 million pounds. In 1982, it had dropped to 450 million. Exports in 1973 were 600 million pounds. They are now in the range of about 480 million pounds.

Flue-cured exports from a volume standpoint in 1982 were about 10 percent below the 1981 level. Reports from our exporters and reports from agricultural attachés indicate some further decline in 1983. There are some problems which have been mentioned by others relating to recession, the strength of the dollar, higher taxes, more competition, and others. However, the big problem is price.

A freeze in price supports is a step in the right direction. If it is a first step in a comprehensive program to restore our competitive position, we did not get into this precarious situation in 1 year, and we cannot get out with a 1-year freeze.

We need to eliminate, as soon as possible, the competitive price gap between the U.S. and competitive leaf. We have suggested that the price supports should be related to cost of production plus 15 to 30 percent. If this is done, we can start an upward pattern.

And I would just like to mention, George, that we do have some comments relating to item 4 and the principles of tobacco legislation and some suggestions which I think have been furnished to you and the other committee members.

Thank you.

Mr. DUNLOP. Dr. Kiger, since you have mentioned those, and we have the gentlemen from stabilization associations here, I wonder if you might articulate those a little bit, and then perhaps you gentlemen could evaluate those for the committee.

Dr. KIGER. Yes. Well, I would just read off those three. I said, "Any sales of Stabilization inventories at discount prices are additional sales to normal commercial sales. No. 2, normal commercial trade channels are used to the extent feasible. No. 3, all sales are made on the basis of published price list, open tenders, or such other procedures which guarantee equal opportunity for participation by the private sector."

Mr. DUNLOP. I think the discussions that have been held on the staff level about that regarded perhaps some report language. What would you gentlemen—would you care to comment on these proposals that Dr. Kiger has mentioned?

Mr. MYERS. I believe Mr. Bond will address the matter of the discount prices. Perhaps Dr. Kiger is alluding to that. We have not asked the Department to give us this authority to discount, however, this may be so in the future. The direct sales perhaps is another. I did not recall completely what Dr. Kiger mentioned in his three points. We are not on record as favoring direct sales to foreign markets. We have not had the problem that Flue-cured has,

so it was easy for us to take the position that we would sell tobacco through our dealers, domestic dealers.

I perhaps did not address your question, Dr. Kiger.

Fred.

Mr. BOND. I do not know that I caught all the questions there. I would comment briefly about the no net cost funds. The law now provides that those funds be invested, approved by the Secretary, and it is contemplated that those funds would be invested and actually, from the legal interpretation by the Department, in various forms of Government paper, CB's, et cetera, to be used at a later time to underwrite any losses under a normal closing out of a pool or crop pool of tobacco.

We have not made any proposal to the Department or the Stabilization board of directors, but we think we should have the flexibility to recommend any proposal, and I have not given any name to any proposal that would expedite the movement of tobacco from the inventories or, to put it another way, to prevent inventories from coming into Stabilization's inventory.

Now, it would be a shame, I think, if those funds were not used to reduce the growers ultimate cost, and all of those, if there are restrictions placed here and there with those funds, then we are not, I do not think, seeking the objective that we intended to seek.

So we are simply asking for flexibility, and that any proposal we submitted would be with the approval of the Secretary of Agriculture. I think the basic point here, Mr. Chairman is that those funds come off the top from the grower. They are grower funds. And I think the grower should have the ultimate decision in how those funds may best be used to finance a no net cost tobacco program.

And, again, I would reply to Dr. Kiger's comments—and I did not catch all three—but we would be opposed to restrictions on those funds, as I understood his comments. I think there has got to be flexibility, and there has got to be equity. We do not have any problem with equity with the buyers of tobacco. Obviously, we could not treat one different from the other.

Mr. MYERS. May I address that? Let me, in retrospect, Dr. Kiger. If the fee is what is being referred to, we took another course of action on that. When we learned that the Flue-cured people were requesting that this fund be kept at the associational level, we contacted the minority counsel and got some language written in, I believe it is section 316B in H.R. 6590, House bill, that this fund would be maintained at the Commodity Credit level, and they have agreed to do that now. We have been in discussions on what rate of interest would be paid us, so we remitted all of our fees that we collected from the grower to the fiscal agent bank of Commodity Credit Corporation. These have now been deposited with them. We do not have control over that fund. They are paying us the equivalent of 7.25 percent interest per annum for those funds, and we are very content that this fund is with Commodity Credit Corporation, and it is not at our level. And maybe that gets a little closer to the question that Dr. Kiger had.

And, George, I might further talk about these funds, and, of course, the Flue-cured growers opted to go in a different direction for the use of those funds, and that is quite all right. Burley certainly has their reasons for going the route they went.

For example, if we were paying 14 percent interest last July, we paid 12 percent in August and we paid 10 percent in September, and from July until September, by using the funds to reduce borrowing from CCC, which is not really contemplated by the legislation as it is now written, we were able to save right at $2 million in interest, and I think that is a wise and prudent use of those funds, rather than putting those funds in a special savings account or Government paper.

So, again, we think this is money used through its borrowings to retain outstanding loans and for any other purposes that may facilitate and expedite the movement of these tobaccos from loan inventories.

Dr. KIGER. I do not disagree with that. Actually, I think what we are trying to achieve is what you indicated—it is equity, and I do not think that—perhaps item 3 there, that all sales be made on the basis of published list price. In other words, our group would not want to be excluded with your going elsewhere and negotiating something to the exclusion of the normal commercial rate, and I do not think and hope you would not plan to do that. That is our concern.

The CHAIRMAN. I stayed over to catch the vote on the measure that is now up.

You fellows know that you are on—you have heard of the Cambridge Diet—you are on the Senate diet now. You just do not eat.

Mr. BOND. You just do not eat.

The CHAIRMAN. I just want to get a quick opinion from each of you, if you are willing to give it. What could we do in addition to a freeze, assuming that everybody agrees that a freeze is in order, to make our U.S. tobacco more competitive. Have you already addressed that?

Mr. BOND. No, sir.

The CHAIRMAN. Do you want to take a shot at it?

Mr. WAYNE. Well, there is no simple answer. At least, I have not heard one come before this committee hearing or even previously. With the overriding global economic and political strains on moving tobacco in world trade today, I think we as a Nation are very handicapped in how you can confirm the problems. There are broad economic problems that spill over beyond tobacco to all of American agriculture and even all of American products that enter the export market. Yet to go beyond the freeze in a manner that would still have tobacco producing property by the farmer in this country I think would be very difficult, in my personal opinion.

The CHAIRMAN. Well, let us all hold hands and agree that we will keep our minds on that and, bearing in mind that you live in Washington, but those of you who do not and those of us who do—at least part of the year—bear in mind that all wisdom does not reside in Washington, D.C.

Fred, do you have any additional thoughts?

Mr. BOND. Mr. Chairman, I guess there are some other avenues that could be explored from a more specific basis. For example, this one came up at one point and sort of died away. Partial advances. Loan rates. Our board considered that possibility and did table the matter. That is, advancing only a percentage of the full loan rate, making the remainder available at a date.

There is—you are talking about costs, I guess?

The CHAIRMAN. Yes.

Mr. BOND. On costs, then, there is something you have already done in years gone by. That is, discount certain grades because of certain characteristics—sand. There is the possibility of discounting unripe, immature, as you did the sand grades.

There is a partial advance. This would be a specified discount on the marketplace. There is the other possibility of a partial advance on certain grades. Some of these things could cause disruption. However, that is one way to attack the problem.

There are some other incentives, purchase incentives, on the quota that could be used to create incentive for buyers to buy additional tobaccos on the warehouse floor, thus preventing those tobaccos from coming into the loan to begin with. That is one possibility.

Another possibility is to take a look at the mechanism that we use in weighting out the grades to establish to loan rates, and the process we are using now unfortunately is tending to put more money into schedule because of our drop in the quality of the crops. That is, as we use the previous crop composition on a grade-by-grade basis, we have more tobacco in the four-letter grades than we did several years ago, and that was to average out at the average support level. You must put more money in the schedule to meet the mandatory level. So maybe we should look at that. That is a possibility administratively, is to come up with a crop composition distribution system that would reflect a more average of desirable crop of tobacco that should be produced in any given crop. For example, just to give you an example of what I am talking about, the composition that we are using this year is the previous 5 years. If we go back into the early seventies and pick out another crop that is not even above average or below average, this would affect the price schedule by almost $5 a 100 on the average less.

So there are some other ways that could be used.

Mr. MYERS. Mr. Chairman, we have heard everything from rolling prices back to making partial advances, which Mr. Bond referred to and on which I testified before Congressman Rose's committee. Congressman Whitley from your good State asked if I was aware of the fact that this could possibly be done administratively. I believe we deduced that this cannot be done administratively, and we have not explored that further. We did not see a lot of merit to that course of action.

You heard my worthy counterpart to the north state that maybe the pricing formula might be adjusted. I guess when you research something and decide on the best course of action, you stop looking for options. We decided that freezing prices—and maybe for no better reason than the fact that we think a united package is very helpful—we felt the Flue-cured folk were going with this, and while I am not a me-to person, I am in fact a nonconformist if anything—I think there are times when, for the sake of unity, it will help to combat the adversaries who are sharpshooting at our fragmentation and devisiveness if we think sometimes on the importance of making compromises and stop looking for options and try to get a package we can all agree to.

We certainly were influenced by that idea. We think that a freeze for the next 2 years is a good idea on the 1982 support level, and then if there are adjustments to the formula that need to be made at that time, then certainly we would look at that.

The CHAIRMAN. I have run into this. In terms of various changes through the years, frequently the people who have opposed exchange after it is implemented, they say that is great. Conversely, the people who have favored it come back in a year's time and say to heck with it, you know, so it is a fluid situation fraught with difficulties.

Mr. MYERS. I guess it is natural to be fearful of changes, especially when you have a program that has worked as well as ours has. We have what we think is a stable, good program that is breaking down because of some things, high prices, surpluses, and so forth. It is difficult to move into change, but sometimes it is necessary.

The CHAIRMAN. I want to get to Hugh in just a minute, but just for the record, Fred, will you state how much tobacco is now in Stabilization? I know you have cited those figures over and over again, but I want——

Mr. BOND. 635 million pounds.

The CHAIRMAN. And what is the desirable level of Stabilization holdings?

Mr. BOND. Oh, approximately 250 million pounds, give or take 50 either way.

The CHAIRMAN. So you are bumping toward three times as much as you need?

Mr. BOND. Yes.

The CHAIRMAN. Hugh?

Dr. KIGER. Yes. Other than what the others had mentioned, Mr. Chairman, I would just say this. As you know, in earlier years, trade programs like Public Law 480 and the barter program and CCC credit were utilized quite extensively for tobacco, I guess because of budget and some other reasons, including the fact that sometimes tobacco gets the low end of the totem pole, you know, on some of these programs. We have not had as much as that moving under trade programs recently, but I think probably at the present time, if we could get some more funds for blended credit for tobacco, this would be helpful to move the tobacco overseas.

Now, another thing which I mentioned, which is not in the field of legislation is one that was mentioned earlier, and that is I think quality is real important, along with price and, as you know, in Flue-cured tobacco, about 10 years ago, about 84 percent of our grades were mature and mellow. Flue-cured last year was down to about 47 percent. This, along with too much pesticide residue, poor preparation for the market, nesting of tobacco, those things are things that we can do to improve our sales on both domestic and foreign markets, and there are some general broad efforts being made on that down in the Flue-cured area now, along with the premium bright program, but I think this is an area that needs emphasis.

The CHAIRMAN. Good. One other question, and I am going to let you go eat, and I will do the same thing myself.

In this business, you live in mortal terror that they are going to hand you something that you forgot.

Let me address—maybe this is not a question I ought to ask you, but you being so conversant with and related to the tobacco program—lease and transfers. Would you recommend exceptions to the lease and transfer provisions in this bill?

Mr. BOND. Mr. Chairman, I will be very frank with you. I am not going to speak to that, because we are more concerned with the price side, so I will defer to other members of this panel.

Mr. WAYNE. No, we would not speak to that, either.

Mr. MYERS. Mr. Chairman, you are going to get a unanimous opinion on that. My board watches very carefully what I say about leases and transfers. I made as strong a statement as I felt I could in my remarks. We think adjusting prices is going to take care of some of the leasing in our area. If we can get the prices down, we think some of the farmers will be less prone to pay high prices for leasing.

Dr. KIGER. I would have no comment on that.

The CHAIRMAN. You are not going to touch it with a 30-foot pole, either.

What have we left out? Any suggestions about what we could do that we haven't thought of?

Mr. BOND. Yes, sir, I will mention one. It is about 5 weeks till the market is open.

The CHAIRMAN. Well, I have just left the floor, and I talked to Senator Baker briefly, and I believe we can persuade this committee to act in an expeditious fashion to get the legislation on the calendar. We will then seek a time agreement and try to roll it on through, because, you know, every day's delay creates a greater hazard.

The only thing, I think I am going to get a bell to ring or something on the Senators. It will not be all that effective, but I sometimes feel that if we could shut off the television cameras and go to work, instead of talking, maybe we could expedite meetings.

In any case, I appreciate your coming.

Any person present today who wants to obtain copies of the testimony submitted by the witnesses should be sure to fill out the sign-up sheet we have in the front office. A copy will be mailed just as soon as they can be reproduced. We have, it says here, a limited number of copies of the statutory language that the committee will consider in markup beginning Wednesday afternoon.

At the conclusion of the hearing, this language, with a short explanation, will be available from the staff director.

Well, to this distinguished panel and to all who preceded you, the Chair would extend its deepest appreciation for the time and effort you have given to being with us today.

Again, I apologize for the protracted period over which this hearing has run, but you have been most patient and cooperative, as always, and I thank you very much, and if there be no further business to come before the committee——

Mr. MYERS. Mr. Chairman, may I make just one closing comment?

The CHAIRMAN. Certainly.

Mr. MYERS. I am sorry Senator Huddleston is not here. We are what is known as little burley, and very small compared to the

massive Flue-cured tobacco in your State. We do have 19,000 constituents of yours over in western Carolina.

The CHAIRMAN. That I know.

Mr. MYERS. So we appreciate your giving us an opportunity to get our input into these hearings. I think I would be remiss if I did not tell you that we intensely appreciate the work that you and Senator Huddleston are doing. And we appreciate Shelley Cooper, the good administrative assistant to Senator Baker, getting us this opportunity.

The CHAIRMAN. Very good. Thank you very much. The committee will stand in adjournment.

[Whereupon, at 2:55 p.m., the committee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM KENTUCKY

Mr. Chairman, I commend you for scheduling today's hearing to receive testimony on proposed modifications in the Flue-cured tobacco program. Your cooperation in structuring the hearing to include testimony from withnesses representing other types of tobacco is appreciated. I look forward to the testimony of representatives of the burley industry and spokesmen for other types of tobaccos, not only on the Flue-cured proposals, but legislative changes, if any, which should be considered at the same time in the programs for burley and other types of tobaccos.

In considering proposed changes in the tobacco program, I hope that we can do so recognizing that the tobacco program involves economic issues; it is not a health issue. Tobacco is vital to the welfare of tobacco farmers, the economies of communities and counties across Kentucky, and in 21 other States.

The critics of the tobacco program seek to link the tobacco program to questions relating to smoking and health. They assert that there is an inconsistency between the positions of the Surgeon General and the Secretary of Agriculture in administering progrms relating to smoking and health and tobacco price supports.

This issue has been addressed by former Secretaries of Agriculture, the Office of Smoking and Health, and Joseph Califano, the former Secretary of Health, Education, and Welfare and an outspoken critic on the issue of smoking and health.

The Office of Smoking and Health has stated that "we feel that if the Government's price support program for the tobacco farmer has any effect at all on public health it is favorable. . . If the program were to be withdrawn, tobacco prices would fall, and cigarettes might become less expensive, possibly encouraging more young people to smoke." Mr. Califano has stated that he has come to realize that there would not be one less person smoking if the tobacco program was eliminated. I agree.

Those who continue to attack the tobacco program as a health issue serve only to confuse the public and do a disservice to farmers and the Congress as it seeks to address program related economic issues. Farmers, warehouseman, leaf dealers, and manufacturers have come together on numerous occasions to make adjustments in the tobacco program.

Today's hearings will assist this committee and Congress in determining the changes that may be needed at this time to, first, assure that the program operates at no net cost to the Government, and, second, meet the challenges that are being presented by tobacco imports and program critics.

Last year, the 97th Congress enacted the no-net cost program for tobacco and doubled the Federal excise tax on cigarettes. In a depressed domestic and world economy, the demand for U.S. leaf and tobacco products declined as farmers became responsible for the costs of the tobacco program. This has become a concern of farmers.

On the supply side, the Department of Agriculture responded to trade requests for an increase in the 1982 basic burley tobacco quota. A 3 percent increase was provided. But, unlike the two previous years, production conditions were ideal. Supplies exceeded not only the basic quota but the effective quota. The result has been that stocks in the burley tobacco pool have increased from zero to 270 million pounds. And 33 million pounds were placed in a carryover pool to be credited against the farmers' 1983 quota.

While current stock levels are about half as large as those in previous periods, USDA expects, I am told, a further increase in burley inventories in 1983.

With U.S. tobacco producers faced with increased competition from imports, today's review of program changes being considered by the Flue-cured industry are of keen interest to burley farmers. The proposals have been discussed at some length in the press and meetings held in Kentucky and here in Washington.

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I am confident that today's testimony will indicate clearly the aspects of the Flue-cured proposals that are of concern to burley producers. The testimony of the burley producers and their representatives will, I believe, indicate support for the effort to make needed changes in the Flue-cured program, and their desire to help this nation remain the world's most reliable supplier of quality burley tobacco.

I look forward to today's testimony, and again thank you for scheduling the hearing.

STATEMENT OF HON. HOWARD M. METZENBAUM, A U.S. SENATOR FROM OHIO

I want to thank you at the outset, Mr. Chairman, for inviting me to present to the Committee my views on the tobacco program.

As you know, on April 28, I joined Senator Garn and ten other cosponsors—Senators Roth, Stafford, Percy, Tsongas, Pell, Proxmire, Hatch, Danforth, Mitchell and Gorton in introducing S. 1179, the Tobacco Deregulation Act of 1983. Congressman Thomas Petri of Wisconsin, along with fifty three co-sponsors, has introduced similar legislation in the House.

In addition to attracting broad, bi-partisan support in the Senate and the House, our bill has been endorsed by an unusually wide range of organizations. These include the American Lung Association, the American Public Health Association, Action on Smoking and Health, Public Citizen, Congress Watch, The National Taxpayers' Union, The Council for a Competitive Economy and the United Tobacco Growers of North Carolina.

There are good reasons why this legislation has attracted so much interest.

On one level, Mr. Chairman, our bill is intended to eliminate what our colleague from Utah, Senator Jake Garn, has described as "an offensive paradox." That paradox is our government's wildly inconsistent policy of actively discouraging smoking while at the very same time promoting the production of tobacco.

There can be no doubt that smoking is one of this nation's leading public health problems.

Each year, says the American Lung Association, more Americans die prematurely from smoking-related diseases than gave their lives in World War I, World War II, the Korean War and Viet Nam combined.

The American Public Health Association describes smoking as our most widespread drug addiction—and as the single most preventable cause of illness and death in the United States.

The opponents of our bill maintain that its enactment will not descourage smoking.

We do not claim that it will but we do say that enactment of the Tobacco Deregulation Act will make our national policy consistent.

And we also say that as a matter of principle, the Federal government should not be in the tobacco business.

But consistency aside, this legislation is needed in order to terminate a costly, cumbersome and anticompetitive Federal program that has by any standard outlived its usefulness.

The USDA's tobacco program began in the 1930s, when tobacco farmers were getting as little as 6 cents a pound for their product. Supply controls were useful at that time, but as J. S. Seagraves of North Carolina State University concluded in a recent paper entitled "The Life Cycle of the Flue-Cured Tobacco Program," the program no longer serves the interests of tobacco growers.

"Supply controls can have large benefits to producers at first," Mr. Seagraves wrote, "and then 'burn themselves out' as they create incentives for other countries to expand production and for manufacturers to introduce substitutes. This happened in the case of the flue-cured tobacco program. The U.S. share of the world's flue-cured tobacco production has fallen from 64 percent in the late 1930s to about 18 percent today. Imports of flue-cured tobacco, which were insignificant before 1967 now represent about one fourth of domestic consumption.

But, Mr. President, the problem goes beyond a "burned out" supply control system. The real problem is the nature of that system.

Just because a farmer wants to produce tobacco in this country does not mean that he can do so. Tobacco may be produced without penalty only by those who hold an acreage allotment assigned more than 30 years ago.

Those allotments are as hereditary as any feudal domain in medieval Europe.

But ours is supposed to be the greatest free market economy in the world.

We say that we believe in free enterprise, competition, the discipline of the market place.

But not, it seems, where tobacco is concerned.

The allotment system, which was designed originally to help farmers, is today a major source of income for nonfarmer holders of tobacco allotments. There are 95,000 tobacco farmers—and 500,000 holders of tobacco allotments.

About 84 percent of all family tobacco farmers must rent allotments in order to grow their crops. Rent can run over $1000 per acre and increases the cost of production for growers by 30 to 60 percent. No wonder that last year, we imported $503 million worth of tobacco mainly of the type grown in the United States.

Last year, we enacted legislation entitled the "No Net Cost" Tobacco Act. As many of us suspected at the time, the bill has only made cosmetic changes in the program, without addressing the real problems.

The program has resulted in massive tobacco surpluses—over twenty five percent of last year's crop was bought as surplus at a cost approaching a billion dollars. And Secretary Block has warned that his authority under the "No Net Cost" bill is not sufficient to adjust the price support level to actually realize no net costs.

The tobacco program isn't working

The Federal allotment system, whose benefits go disproportionately to non-farmers, has outlived whatever usefulness it once may have had.

And I believe that it is high time to bring to tobacco production the benefits of free enterprise.

Our bill will give the free market a chance to work.

It will give our farmers a fighting chance to recover their share of the domestic and world tobacco markets.

It will protect low-income allotment holders by buying out their allotments at the fair market price as of March 8, 1983.

I believe that tobacco deregulation is long overdue and I hope that the committee will, in its consideration of tobacco legislation, seriously examine deregulation as an alternative to further tinkering with an inherently faulty program.

STATEMENT OF HON. MACK MATTINGLY, A U.S. SENATOR FROM GEORGIA

Thank you Mr. Chairman, I will limit may remarks today because I know the committee is anxious to receive the testimony of our growers, industry representatives and others who are directly involved with the production and marketing of this vitally important crop. Although the most immediate effects of any program changes will be felt by farmers, I think we should emphasize the major role tobacco plays in our economy by creating jobs in both the farm and non-farm sectors and the tremendous tax revenues which tobacco generates at all levels of government.

Producing, processing and marketing of tobacco products creates approximately 2 million jobs of all kinds, and in 1979 was responsible for $30 billion in wages and earnings. That same year, Federal, State and local taxes in excess of $22.0 billion were generated and I would point out that those figures were before we doubled the Federal tax on cigarettes last year.

I am concerned, Mr. Chairman, That we must act rapidly if we are to truly help the actual growers of this important crop. When we refined the program last year, we imposed a "no-cost" assessment against both the grower and the allotment owner so that the program would not result in losses to the Government. We were told that the few million dollars in costs were intolerable and that we must put an end to such a horrible situation. Of course, when one mentions that the dairy program is costing the taxpayers about $2.5 billion . . . not million, but billion . . . each year any costs of the tobacco program pales by camparison. At any rate, we did act to insulate the Government against any losses on the program. It greatly distresses me to see that many of the allotment owners have responded to this by simply increasing the amount of rental that the grower must pay for the privilege of growing the crop. This, of course, places the producer in an even more precarious position financially. The committee must correct this type of abuse.

As we all know, the biggest problem, aside from the high rates of rent charged by allotment owners, is that our American tobacco is largely non-competitive on the world market. This is partly due to the formula which has mandated annual increases in the support loan, even when such increases actually only hampered the sales of our crop abroad. I would hope the committee will carefully study this problem area, with an eye towards allowing the Secretary of Agriculture a much more flexible authority to retain our farmers competitiveness.

Finally, I believe that you should be very sensitive to the problems of the farmer who is actually growing the crop. We should be careful to ensure that the person

who has been dependent on "leased-in" quota poundages in the past will not be denied the right to produce his crop in the future.

Again, Mr, Chairman, I thank you for your able assistance and that of the members of the Agiculture committee. I pledge to assist you in every way possible to ensure the future stability of our tobacco farmers and those in the business and service sectors whose jobs also depend on the actions you will be taking.

STATEMENT OF C. HOKE LEGGETT, ASSOCIATE ADMINISTRATOR, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman and Members of the Committee, my name is C. Hoke Leggett. I am Associate Administrator of the Agricultural Stabilization and Conservation Service (ASCS), U.S. Department of Agriculture. In addition, we have specialists in attendance from our ASCS Tobacco and Peanuts and Analysis Divisions, as well as the Foreign Agriculture Service, who can later assist in responding to any questions. We appreciate the opportunity to appear before you today to discuss the Tobacco Price Support Program.

U.S. TOBACCO TRADE

The Secretary recognizes the great contribution tobacco makes in our national economy as well as the contribution it makes towards a favorable balance of trade. The importance of international tobacco trade to the United States should not be understated. The United States is the leading exporter and the leading importer of unmanufactured tobacco. We are the number one exporter of manufactured tobacco products.

Tobacco trade contributes importantly to our balance of payments. Last year exports of leaf tobacco were more than $1.5 billion. Exports of tobacco products—mainly cigarettes—were $1.3 billion. Taken together, our exports of leaf and products exceeded imports by more than $2.3 billion—a record contribution by tobacco to our balance of trade.

American tobacco producers are heavily dependent on the world market: nearly half the U.S. Flue-cured crop moves into export; burley exports approach one-fifth of production.

But despite the relative strength of our industry's export performance, the dominant position of the United States in the world tobacco economy is waning.

For example, ten years ago nearly four-tenths of the world's flue-cured tobacco crop, excluding production in the People's Republic of China, was grown in the United States. We supplied four-tenths of world exports.

Last year, we produced less than one-fourth of the world's Flue-cured tobacco and our exports were only one-fourth of the total.

During the same period, imports into the United States have grown. In 1973, less than one-fifth of the tobacco used in our cigarettes was imported, and most of this (80 percent) was oriental—a type not grown in the United States.

Today, nearly one-third of the tobacco consumed in cigarettes in the United States is imported and more than half of this is Flue-cured and burley leaf and scrap.

In short, during the past ten years foreign-grown tobacco has taken practically all of the growth in consumption outside the United States and a significant portion of consumption in this country.

The erosion in demand for U.S. tobacco in the export and domestic markets is largely due to the continuing disparity between its cost and that of tobacco produced in developing countries. To the extent that the price support formula has helped maintain this cost gap, it has encouraged production and consumption of cheaper foreign-grown tobacco.

Current and prospective supply and demand factors point toward acceleration in the loss of market share for U.S. tobacco, at least in the near term. Tobacco consumption in the United States and most major consuming countries is stable or declining due to tax and price increases, smoking and health concerns and the effects of economic recession on disposable incomes. Rising costs and continuing high interest rates are encouraging greater efficiencies in leaf manufacturing and reductions in leaf inventories. Leaf supplies world-wide are generally in excess of anticipated requirements. The strength of the dollar in relation to the currencies of importing countries and recent devaluations by competing exporters—Argentina, Brazil, Mexico, Zimbabwe, for example—are making U.S. tobacco less price competive.

Unless measures are taken to bring the price of U.S. Flue-cured, burley, and other kinds of tobacco more into line with the prices of competing foreign growths, we face the prospect of further loss of sales in the export and domestic markets, a con-

tinuing buildup on loan inventories, increased contributions by producers to the no net cost fund, and reductions in production quotas.

EXPORTS

In relation to domestic production, exports of tobacco have been important for many years. Tobacco ranks fourth or fifth among U.S. agricultural exports in terms of value (after feed grains, soybeans, wheat, and sometimes after cotton). About 35 percent of the crop goes as unmanufactured tobacco and 5 percent is exported as manufactured products.

TOBACCO IS FIFTH LEADING CASH CROP

Although tobacco requires only 0.3 percent of the Nation's cropland, the tobacco crop was worth $3.5 billion last year and accounted for 2.3 percent of all farm cash receipts from marketing. Tobacco sales represent nearly 5 percent of cash receipts from crops and usually bring it to a fifth ranking in value among cash crops (after corn, soybeans, wheat, and cotton) and tenth among all U.S. farm commodities (after previous four crops plus cattle, hogs, milk, eggs, and broilers). Tobacco sales are 50 percent larger than citrus fruit sales, twice as great as the sorghum or potato crops, and four times larger than peanuts or apples.

FARM PRODUCTION

In 1982, about 250,000 farms produced tobacco. Although twenty-two States have farms growing tobacco, most of them are in the South because of more favorable growing conditions. Six States accounted for 90 percent or more of the tobacco allotments, farms producing tobacco, cash receipts, and employment.

The six leading States, ranked by the amount of cash receipts from tobacco are: North Carolina, Kentucky, South Carolina, Virginia, Georgia, and Tennessee. For the six States, tobacco cash receipts were 22 percent of total cash farm receipts. In the two leading States, North Carolina and Kentucky, tobacco is the leading source of cash receipts from farm marketings and ranks high in South Carolina, Virginia, Georgia, and Tennessee.

TOBACCO, A MAJOR REQUIREMENT FOR FARM LABOR

Tobacco is a major agricultural commodity that several hundred thousand farm families depend on for a significant part of their livelihood. Tobacco is one of the few crops that can utilize family labor and still provide a reasonable income on a small farm. About 230 hours of labor are required to produce and market an acre of tobacco. By contrast, food grains (wheat and rice) require only 2¾ hours per acre.

About 5 percent of all labor used on farms, or about 226 million hours, went into tobacco production in 1981. Much tobacco labor comes from the operators and their families but most producers hire some labor due to the extremely high seasonal requirements.

ALLOTMENT SIZE DISTRIBUTION

The 195,000 farms with flue-cured allotments averaged 2.8 acres of tobacco in 1981 but vary widely in size from less than ½ acre to 200 acres. Almost nine-tenths (87 percent) of the allotments are 5 acres or less (accounting for 52 percent of the quota). Lease and transfer of allotments and renting of farms has increased markedly since the early 1960's so that the average operating unit was about 12 acres by the late 1970's.

FREEZE PRICE SUPPORTS

The Department favors legislation that would amend section 106 of the Agricultural Act of 1979 (7 U.S.C. 1445) to lower or freeze the price support for flue-cured tobacco.

The No Net Cost Tobacco Program Act of 1982, in amending the 1949 Act, requires that at least 65 percent of the increase computed using the support formula be added in the support level of that of the previous crop year. And the modest reduction—35 percent of the increase—can occur only when we find that the supply of certain grades of a particular tobacco is or is likely to be excessive. The Department has proposed for the 1983 season a support level of $1.789 per pound (minimum) to $1.838 (maximum). The period for receipt of comments from the public ended June 9 and we are now deciding on the support level and appropriate grade loan rates. As-

suming the minimum support for the purpose of this discussion, a freeze at the 1982 level of $1.699 per pound would represent a reduction of 5.0 percent.

With thousands of producers and a handful of multinational tobacco manufacturers, it's imperative that we have a structure that provides buyers an adequate supply a reasonable prices, while providing producers a fair return.

As you know, the Administration favored enactment of the No Net Cost Tobacco Program Act of 1982. We considered the legislation as a positive first step in controlling the costs of the tobacco program. But we said in our legislative report that the discretion to adjust support levels was very narrow and may not be enough to allow USDA and producers to meet the no net cost objective specified in the Agriculture and Food Act of 1981.

Over the years, the statutory formula which must be used to calculate the level of price support for tobacco has resulted in increased support prices without regard to changes in tobacco production costs and prices of competing supplies. From 1971 to 1981, the increase in the level of price support for all kinds of tobacco was approximately 129 percent. Since the present formula for calculating the level of price support for tobacco was established by legislation in 1960, the U.S. share of world flue-cured tobacco exports has declined from approximately 60 percent to 26 percent. Imports of flue-cured tobacco have increased from a negligible amount to approximately 12 percent of domestic use. For burley, imports have increased to 19 percent of domestic use.

United States Flue-cured prices for the 1981 tobacco buying season averaged 87 percent more than grower prices in the major tobacco competing countries of India, Canada, Thailand, Malawi, Brazil, Zimbabwe and Korea. Currency devaluations by major competitors in recent months have also contributed to greater differences in the prices for domestic and foreign tobacco. By contrast, the U.S. prices in 1962 were 62 percent more than the grower prices in the foreign countries listed above. While costs vary markedly from grower to grower, USDA is able to estimate a representative production cost for Flue-cured tobacco. Excluding land and quota charges, production cost, except for 1979, average well below the levels of price support. The levels of price support for the 1981 and 1982 crops of tobacco were substantially greater than the cost of production. To slow the growth of foreign competition and increase U.S. tobacco's competitiveness, it is clear that consideration will have to be given to a substantial revision or modification of the statutory method for calculating the level of price support. Failure to take such action will surely necessitate sizable reductions in the basic quota, and sharp increases in producer contributions to no net cost funds of accounts will be necessary. Although this hearing is to determine what changes should be made in the Flue-cured tobacco price support program, the formulas used in determining price supports for burley, fire-cured, dark air-cured, and cigar tobaccos provide very limited discretion for the Secretary of Agriculture. The formulas may have to be modified to assure that the program is operated at no net cost to the taxpayer.

PHASEOUT OF LEASE AND TOBACCO

The Department favors, in principle, a modification of the current arrangments for renting and leasing quota. However, we would like to point out that there are numerous problems associated with administering a program which requires the owner to share in the risk of the production of the crop. Administrative problems would probably be minimal in those cases in which a lessee leases quota from only one farm owner, but leasing quota from several farm owners would greatly complicate the problem.

Some of the problems associated with sharing in a lease and transfer arrangement are:

1. With multiple leases involving different share arrangements and differing sounds of quota, payments to the various owners when the tobacco is sold may be very complicated.
2. Marketings over or under 100 percent of the quota would present problems to the lessee and lessors.
3. Determining whether several lessors would share in each marketing of tobacco or simply in a specified number of pounds would present problems because all marketings may have different values.
4. A producer could sell his poorer quality tobacco first to pay the owner of the quota and then sell his better tobacco with his previously existing quota.
5. ASCS would have to determine whether indirect means, such as lending money, has been used to pay the owner up front before the crop is marketed.

In addition, some of the problems associated with a requirement that the owner's share in the crop be produced on the owner's farm are:

1. When several farms each having a different owner are combined into one farm through the ASCS office, each owner would have to share in the crop. This would lead to some of the same problems as enumerated for lease and transfer.

2. ASCS currently does not have a record of all of the owners on some farms. To obtain such information is virtually impossible, especially for those smaller farms in which an owner died interstate years ago and the estate has been left intact.

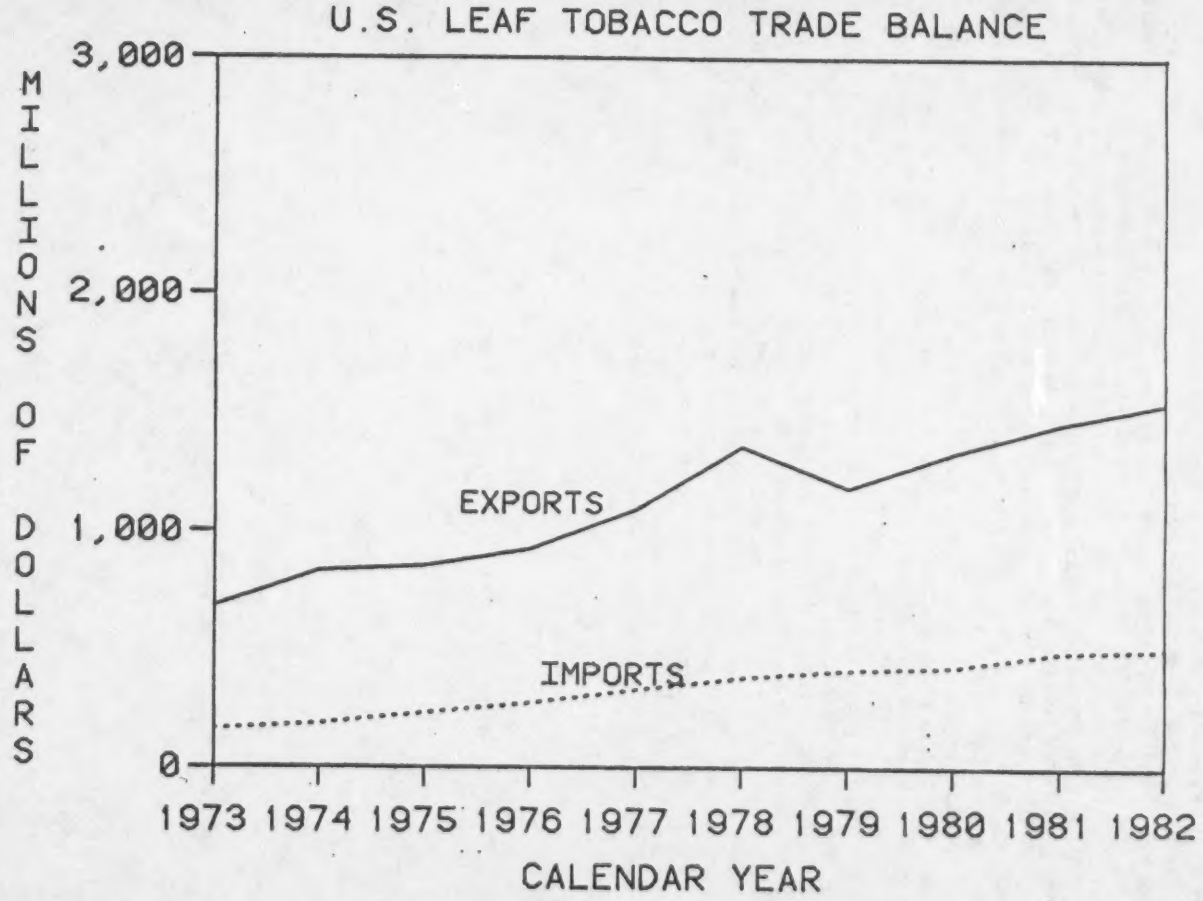
3. ASCS would have to determine whether an owner produced the quota himself rather than actually cash leasing the land and quota to another producer and concealing such fact from ASCS.

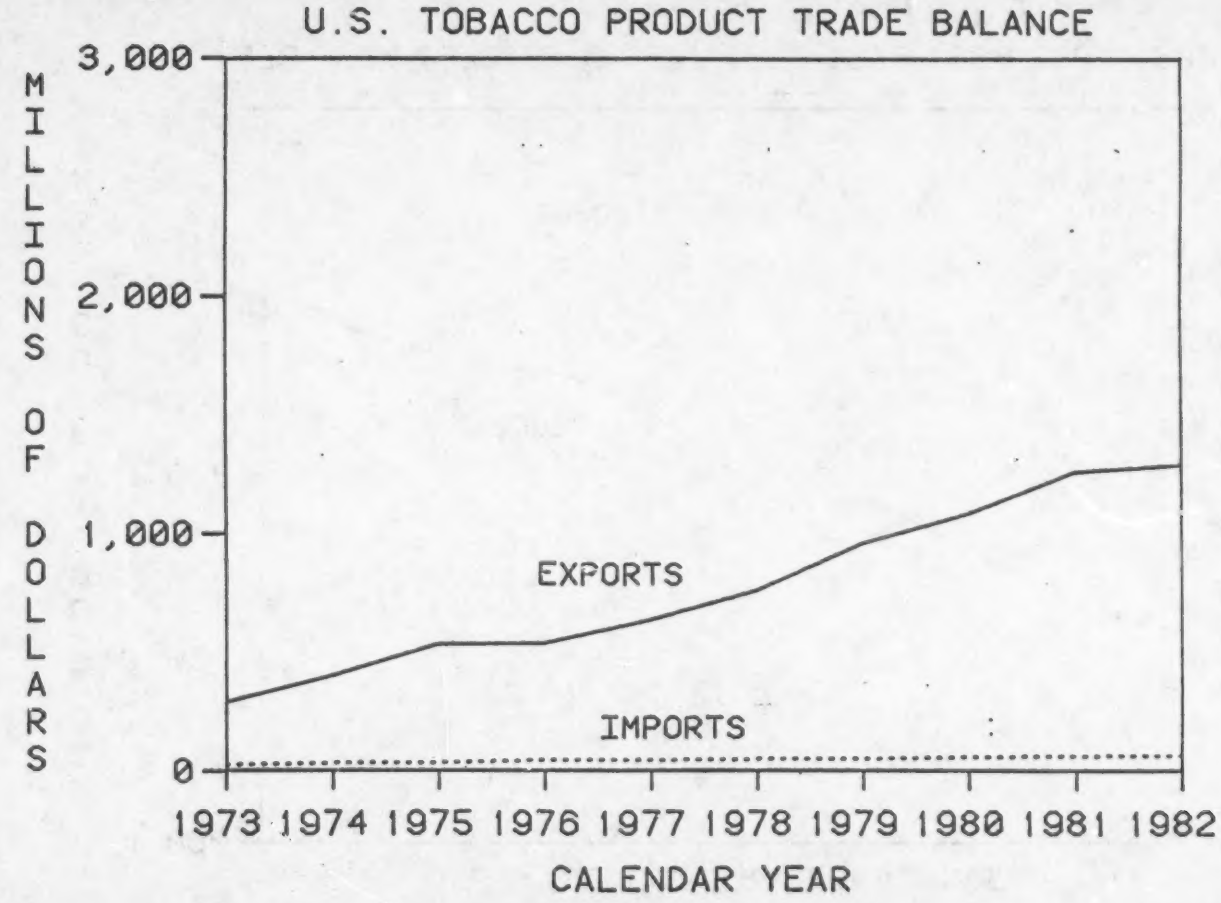
4. Owners may feel that specifying the manner in which they must rent their tobacco crop that is being produced on their own farm is an invasion or their privacy.

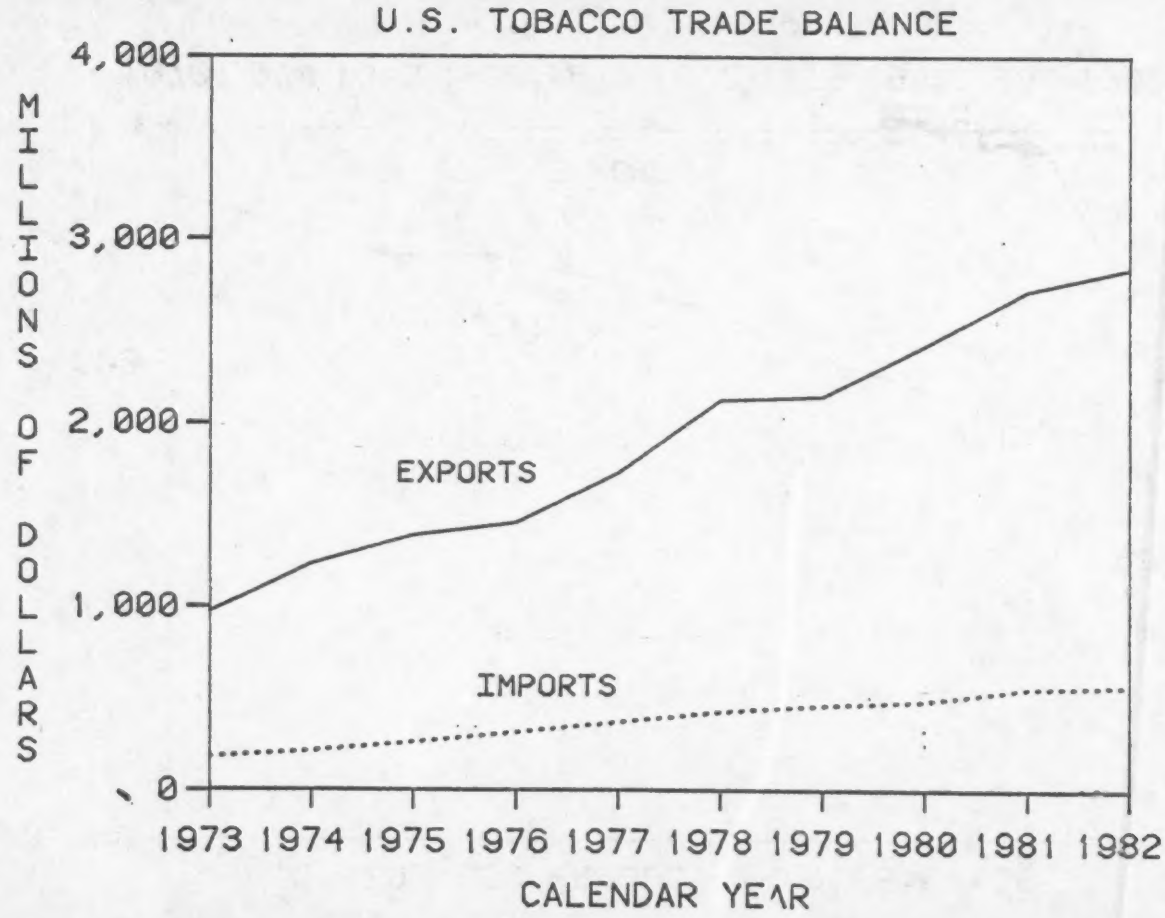
5. ASCS would have to determine whether indirect means, such as lending money, had been used to pay the owner up front before the crop is marketed.

We would be pleased to discuss with this Committee some alternatives which may be used in reaching the objectives which have been expressed regarding lease and transfer during 1984 and 1985. All in all, new legislative authority for Flue-cured tobacco would provide tobacco growers some additional steps in the effort to make U.S. tobacco production more competitive and to protect our market share in customer countries around the world. Some of the proposed changes along with additional discretion for the Secretary of Agriculture may need to be considered for burley and other kinds of tobacco under support.

Mr. Chairman, I am glad the Committee has chosen to consider legislative changes, and appreciate the opportunity to meet with you.

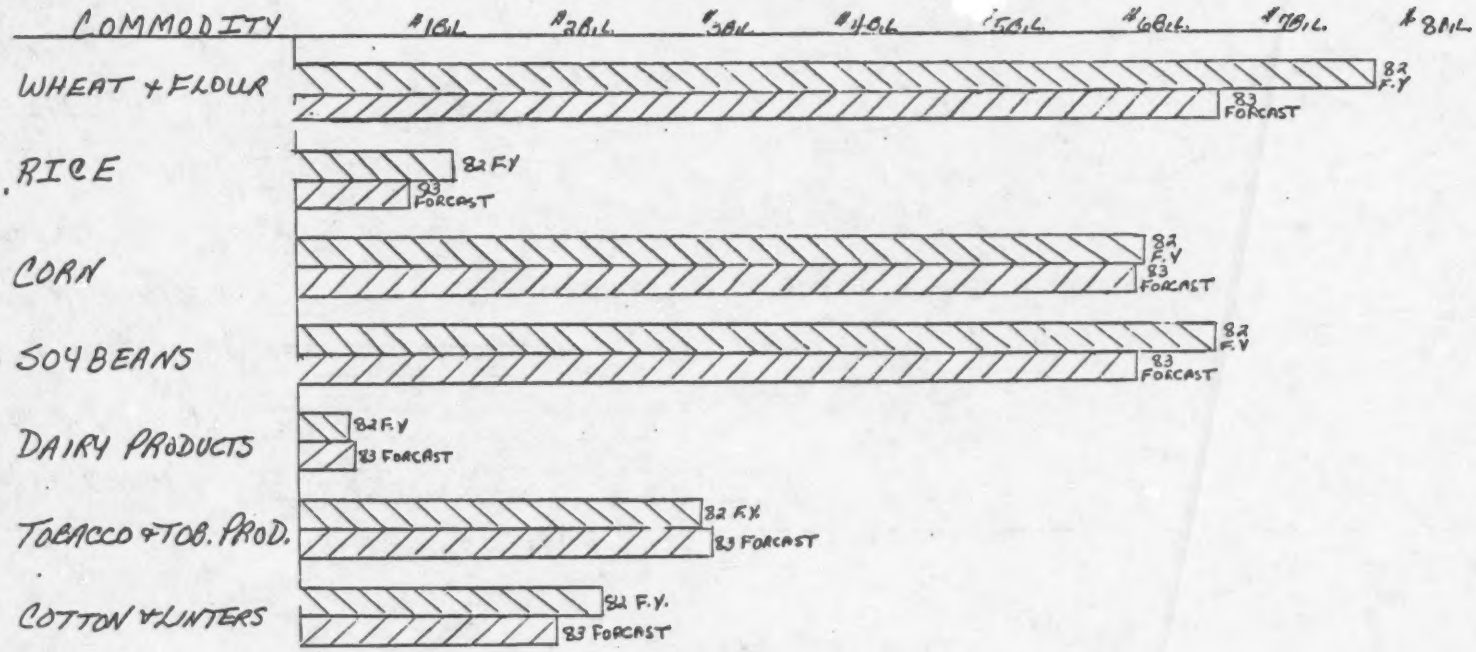

U.S. LEAF TOBACCO TRADE BALANCE
MILLIONS OF DOLLARS
3,000
2,000
1,000
0
EXPORTS
IMPORTS
1973 1974 1975 1976 1977 1978 1979 1980 1981 1982
CALENDAR YEAR


U.S. TOBACCO PRODUCT TRADE BALANCE
MILLIONS OF DOLLARS
3,000
2,000
1,000
0
EXPORTS
IMPORTS
1973 1974 1975 1976 1977 1978 1979 1980 1981 1982
CALENDAR YEAR

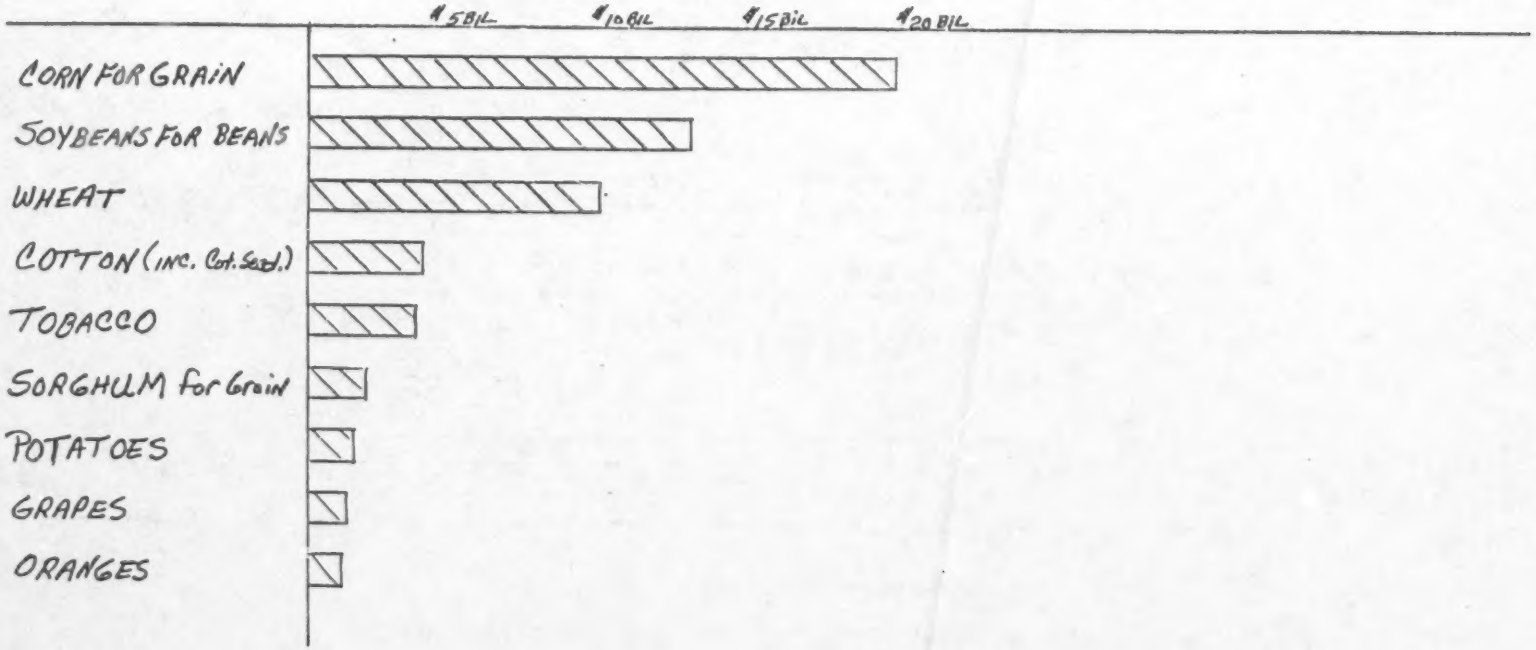

U.S. TOBACCO TRADE BALANCE
4,000
3,000
2,000
1,000
0
MILLIONS OF DOLLARS
EXPORTS
IMPORTS
1973 1974 1975 1976 1977 1978 1979 1980 1981 1982
CALENDAR YEAR

OUTLOOK FOR U.S. AGRICULTURAL EXPORTS, MAY 1983

(BILLIONS DOLLARS)



CROP VALUES, UNITED STATES, 1982
FOR 9 LEADING CROPS



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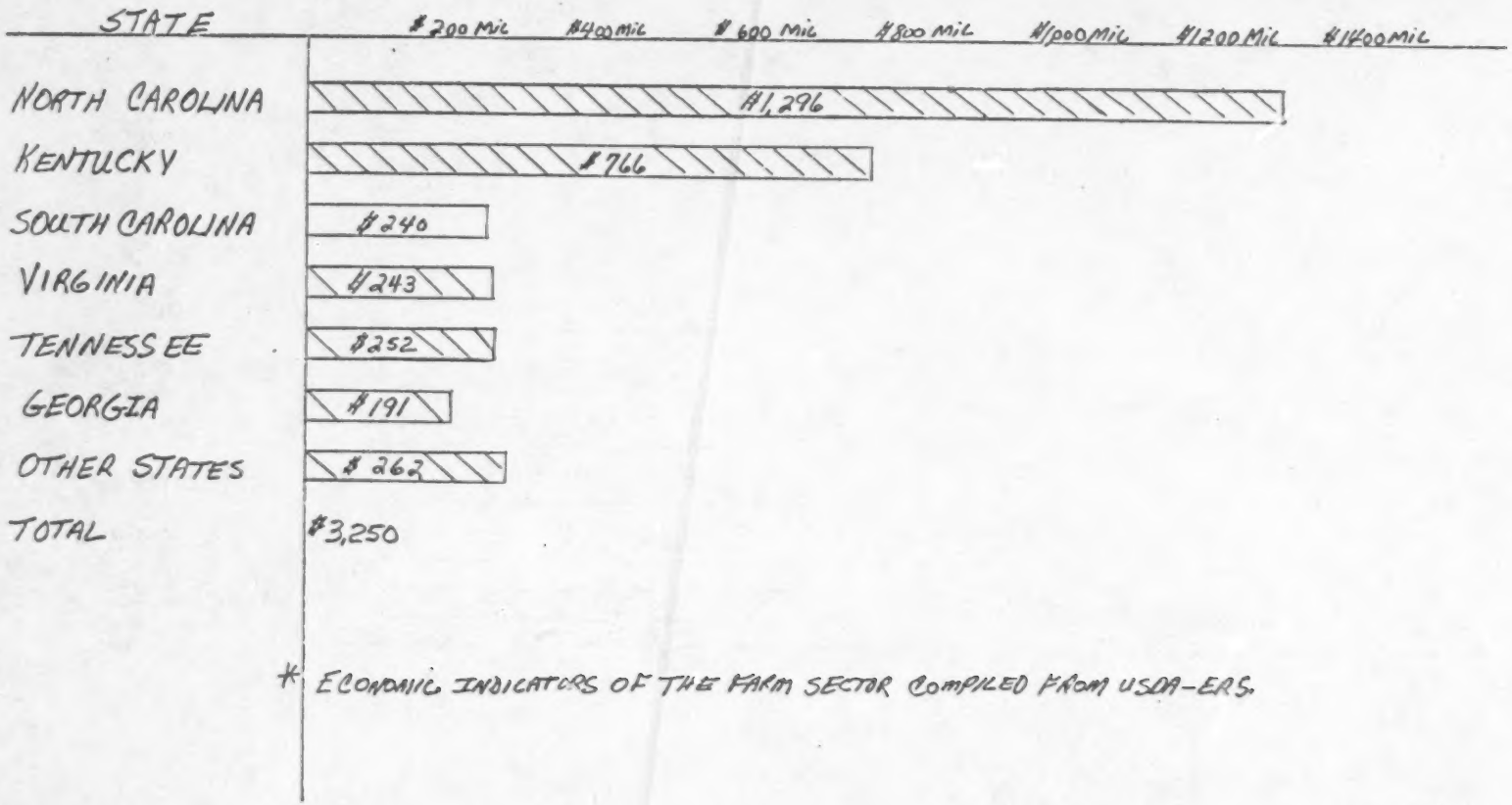
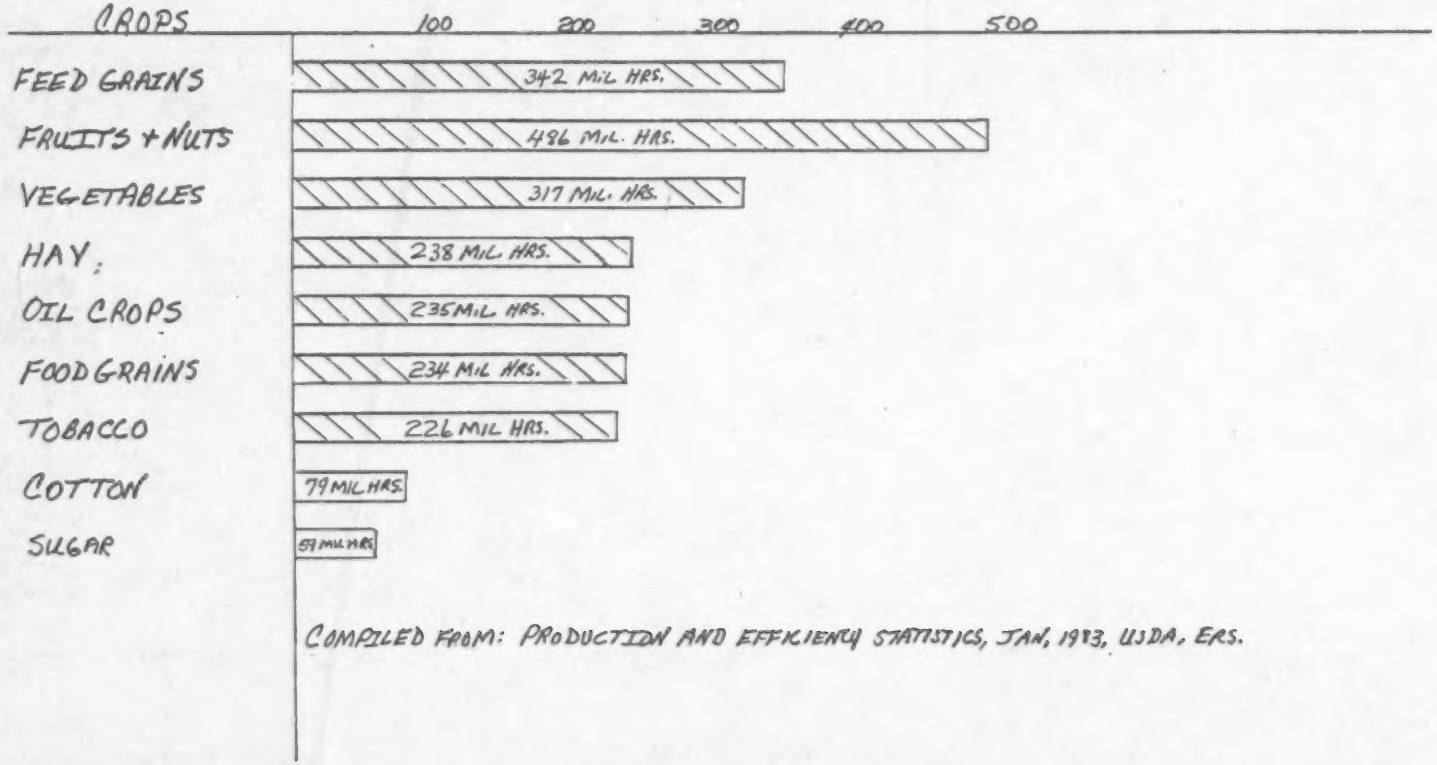
CASH RECEIPTS FROM TOBACCO*

6 LEADING STATES, 1981



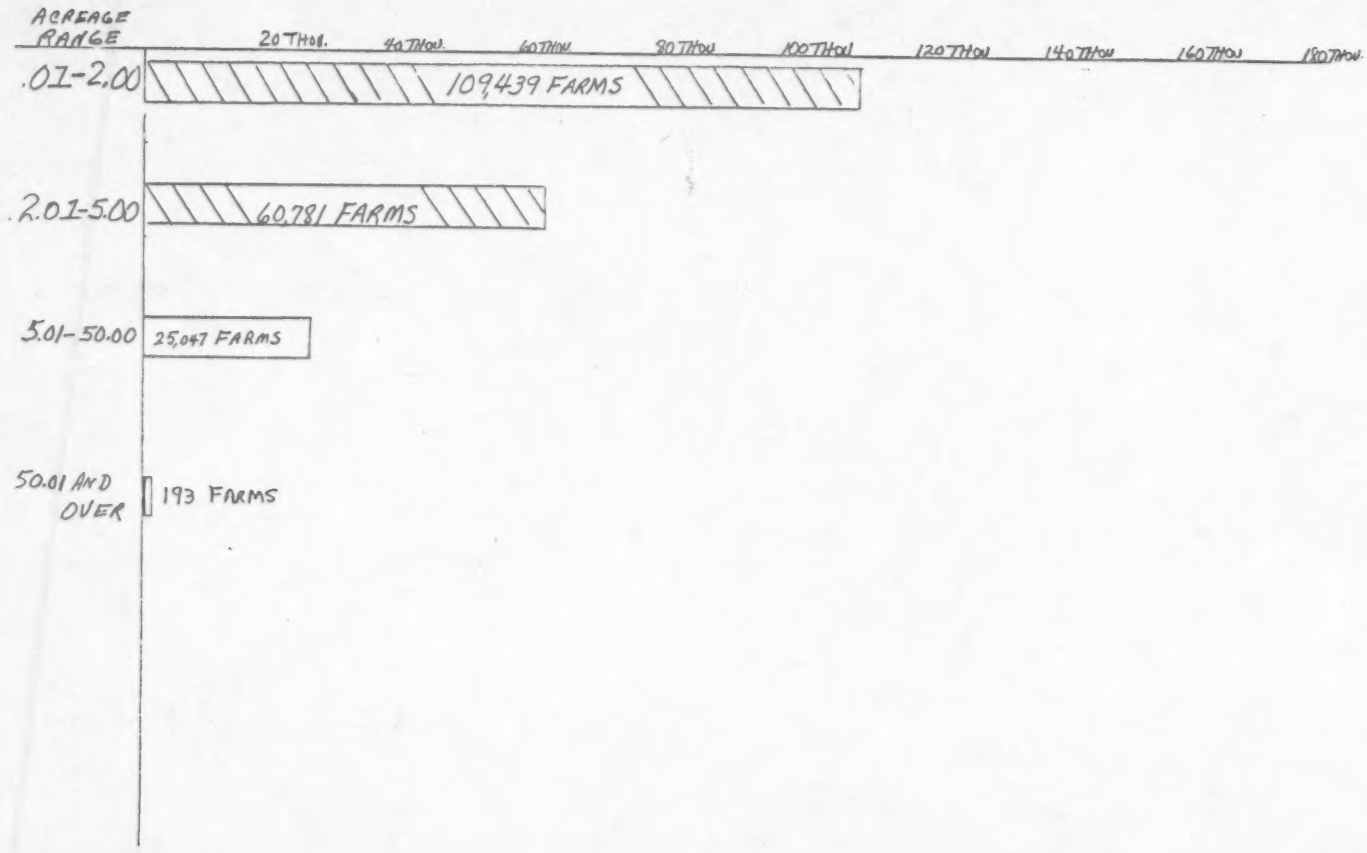
* ECONOMIC INDICATORS OF THE FARM SECTOR COMPILED FROM USDA-ERS.

HOURS REQUIRED FOR FARM WORK BY CROP FOR VARIOUS ENTERPRISES, 1981
(MILLION HOURS)

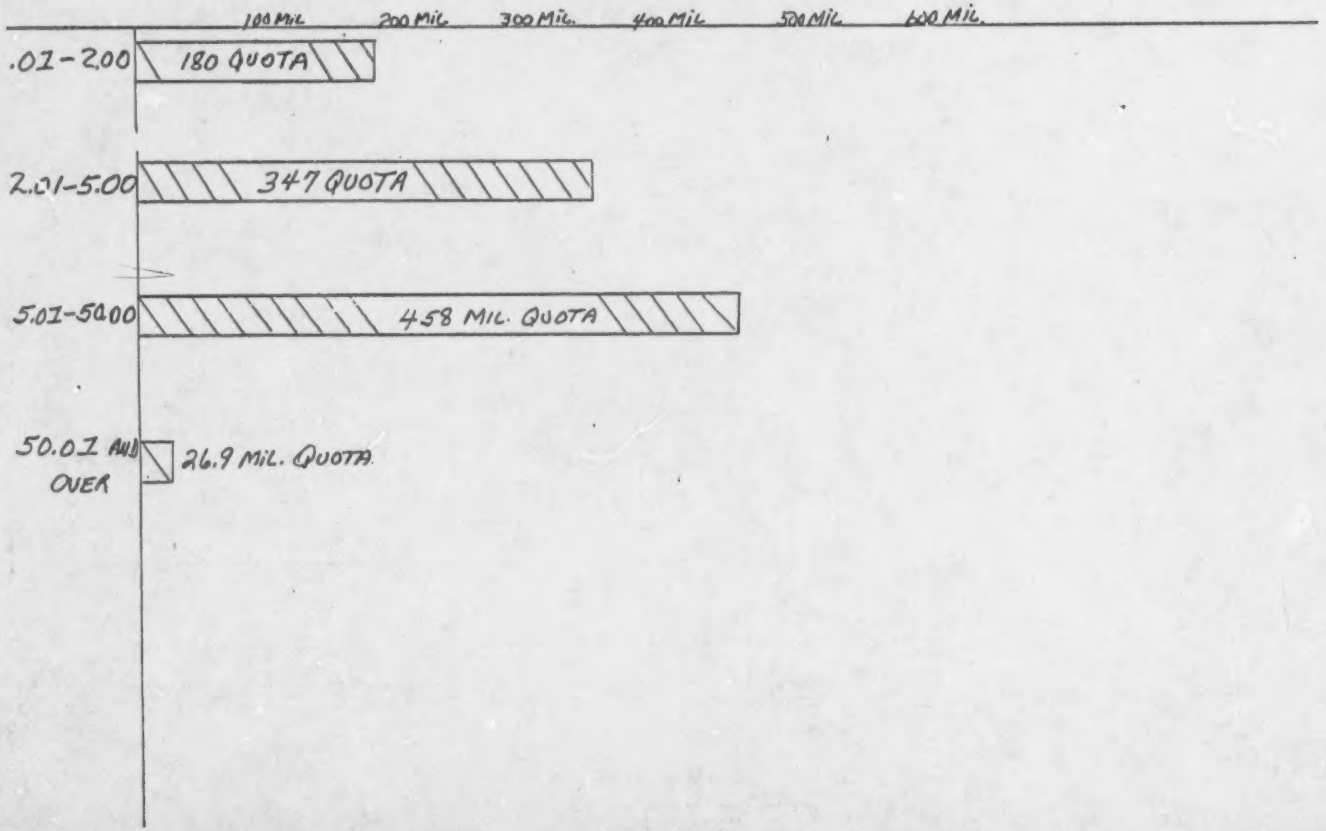


COMPILED FROM: PRODUCTION AND EFFICIENCY STATISTICS, JAN, 1983, USDA, ERS.

SIZE GROUPS OF FLUE-CURED TOBACCO FARMS
(No. OF FARMS)



SIZE GROUPS OF FLUE-CURED TOBACCO FARMS
(BASIC QUOTA ACREAGE)



STATEMENT OF WILLIAM E. LITTLE, COMMODITY DIRECTOR, NORTH CAROLINA FARM BUREAU FEDERATION

Mr. Chairman and members of the committee, I am William E. Little, commodity director of the North Carolina Farm Bureau Federation with State headquarters in Raleigh, North Carolina. We appreciate this opportunity to present a statement in behalf of our number one cash crop.

The North Carolina Farm Bureau is a general farm organization representing the Flue-cured tobacco growers in 71 counties and burely growers in 29 of our 100 counties.

The economic importance of tobacco is widely recognized in the State since the annual gross farm income has been averaging one billion dollars or more than 30 percent of the total farm income. North Carolina produced 323,000 acres of Flue-cured and burley tobacco in 1982. The North Carolina Flue-cured tobacco effective quota for 1983 is 584,298,075 pounds or 65.5 percent of the national effective quota of 892,383,083 pounds. An estimated 11,000 acres of burley tobacco is expected to be produced in North Carolina during 1983.

The "no net cost tobacco program act of 1982" has set in motion and the implementation of the most sweeping changes in the tobacco program's fifty year history. Since the Tobacco Act was passed just prior to the opening of the 1982 Flue-cured marketing season, the full impact of this legislation will not be evident for months or even years.

The North Carolina Farm Bureau does not wish to imply or claim that the "1982 act" was a cure-all or panacea for tobacco and that no changes should be made. We are simply saying that we should proceed with caution in view of the major changes mandated in 1982.

We have several tobacco committees in farm bureau that are exploring several areas that could result in some recommended changes for the future. The North Carolina Farm Bureau board of directors met on May 6, 1983 and acted on several recommendations that will be presented in this statement.

In addressing several areas of concern for this hearing we wish to make the following comments:

THE PRICE SUPPORT FORMULA

The current version of the tobacco price support progrm had its origin in 1960 with House bill H.R. 9664, introduced by Representative Watt Abbit (Virginia) and passed by both Houses with little opposition and signed into law by President Eisenhower. Thus, this bill eliminated the "rigid high support 90 percent of parity price-fixing concept" which had operated for about seventeen years. The 1960 support price under the "act of 1960" was established at the 1959 level of 55.5 cents per hundred pounds and remained at this level through 1961. The current formula under the "1960 act" directs that the base support price established in 1960 is to be adjusted by the three year average index of prices paid by farmers, including wage rates, interest and taxes. Refer to exhibit A for basic formula.

This formula had operated for twenty-two years without changes until 1982. With the passage of the "no net cost program" the Secretary of Agriculture was authorized to make such reductions in support rates for tobacco grades as long as this reduction did not reflect less than 65 percent of the increase in the support level based upon the current formula. Therefore, this permanent legislation directs the secretary to reduce each year support price by as much as 35 percent.

THE SECRETARY OF AGRICULTURE DID EXERCISE THE AUTHORITY GRANTED BY THE "ACT OF 1982 " AS SHOWN BY THE FOLLOWING EXAMPLE:

1982 Support level—175.9 cents per lb.
1981 Support level—158.7 cents per lb.
Total Increase—17.2 cents per lb.
Reduction factor—65.0 percent.
Adjusted increase—11.2 cents per lb.
1981 Support level—158.7 cents per lb.
1982 Adjusted support level—169.9 cents per lb.

The "act of 1982" also provides that the reduced price support level for 1982 of $169.90 per hundred pounds is a new base (the first since 1960) and that any adjustments for 1983 and future years will use the level of $169.90 and not $175.90 as provided under the regular formula.

If the Secretary implements the 65 percent provision in the formula for 1983, the price support is projected to be $178.50 per hundred pounds for Flue-cured tobacco

which is a five percent increase over 1982 although USDA is predicting a cost of production increase of about seven percent for total costs, excluding land and quota. It is apparent under the new act that if the Secretary continues to implement the 65 percent provision each year, that future increases will be very modest and would amount to a freeze in price supports being accomplished every three years. Refer to exhibit B for year to year projections.

We feel that the current or basic price support formula has served tobacco well and should not be eliminated but modified as conditions have warranted in the past. We would caution against adopting other types of formulas such as the use of cost of production. The current peanut program is a good example. The question always arises as to what figures do you use and whose figures do you use. During 1982 the land grant colleges of the peanut producing States estimated that there had been an average increase of 12.77 percent in production costs over 1981—a low of 6.74 percent for Texas to a high of 19.24 percent in North Carolina. USDA reported a decline in production costs from $508.94 per ton in 1981 to $481.38 in 1982, or a $27 per ton decline.

On May 6 our board made the following recommendations regarding the future price support level:

"We recommend that beginning with the 1984 crop year the price support level for Flue-cured tobacco be stabilized at the 1983 level for 1984 and 1985, and beginning in 1986 if the current price support formula computes at 5 percent or less as the three year moving average of prices paid by farmers, including wage rates, interest, taxes, etc., the price support level would be stabilized for one more year (1986), after which the provisions of "The No Net Cost Tobacco Program Act of 1982" would be implemented, which provides for an annual increase of 65 percent to 100 percent of the three year average as determined under the regular formula. However, if the price formula cost index is 5.1 percent or more in 1986, "The No Net Cost Tobacco Act of 1982" would then be implemented for 1986 and future years."

We are receptive to any and all changes that will increase production and enhance the stability and integrity of the tobacco program. We were in the forefront promoting major changes which were incorporated in the "1982 act".

We are aware that American tobacco quality must be constantly improved because this is an area in which we can compete and must compete. We face large surpluses of tobacco world-wide plus the fact that we are confronted with many tariff and non-tariff barriers and weaker foreign currencies in relation to the American dollar. Also, we are hearing that manufacturers may reduce their inventories or stocks from a three-year level to a two-year level over the next two years. Before any legislative changes are initiated we would hope that some firm commitments will be given by buying companies relative to their domestic purchases as well as imports of tobaccos.

As a final reference to the price of Flue-cured tobacco, we would emphasize that the market average increased by only 167 percent between 1966 and 1982, while wholesale cigarette prices of standard packs (excluding Federal excise taxes) increased by 324 percent. The 324 percent increase in the price of cigarettes is 157 percent greater than the increase growers received during this sixteen year period. Refer to exhibit C

THE HIGH COST OF LEASING

With a private enterprise system that we operate under in our Nation, where the supply demand relation influences the market, we have not been able to conceive of any equitable manner in which quota price ceilings can be established and the quota poundage re-allocated to growers on a fair and just basis. Any regulating or controlling of leasing prices could involve much more government regulatory powers, thus prompting more grower and anti-tobacco criticism. One may ask if a ceiling or cap is placed upon tobacco quota, why not do the same for land producing corn and soybeans?

HOW TO MOVE ALLOTMENTS INTO THE HANDS OF GROWERS

The "Act of 1982," as intended, is beginning to cause the movement of quota into the custody of ownership of growers. This has occurred first with the municipal or non-agricultural corporation owned and then private owners. As mandated by the "act" all quota owned by non-agricultural corporations must be sold to active growers within the respective counties by December 1, 1983. Through February 18, 1983, there were 2,717 farms in North Carolina that have sold 3,469 acres of Flue-cured tobacco allotments.

The 3,469 acres represent 6,274,648 pounds of tobacco quota sold. Wake county leads the State in the sale of allotments with 477 acres sold with a quota of 848,931 pounds. Beaufort County is second in the sale on allotments with 248 acres sold with a quota of 498,831 pounds.

It should be emphasized at this point that many growers would be unable to grow tobacco unless they entered into rental agreements with landowners regarding both quota and land. Similar rental arrangements are to be found across our Nation where owners, because of retirement or for other reasons, find it to their advantage to consummate rental agreements.

The N.C. Farm Bureau board of directors on May 6 made the following recommendation regarding the lease-transfer program:

"We recommend that beginning in 1984 the lease-transfer program for Flue-cured tobacco be phased out by the crop year 1987. This three-year period should provide all allotment holders who lease off the farm an ample opportunity to share in the production or sell allotments within the county to active tobacco growers."

This action is not intended to affect the leasing or rental arrangements between the allotment holder and grower or renter where the tobacco quota is grown back on the farm where it is assigned. Leasing away or off the farm would be terminated after three years under this proposal.

We must always ask ourselves, will it give strength or stability and integrity to a program that had its origin 50 years ago?

THE DOUBLE ASSESSMENT

We know that the assessment provision in the "Act of 1982" was well intended and a sincere effort to require allotment holders who lease quota to contribute to the operation of the new program. Due to a lower quota in 1982, and stronger demands as a result, there were increasing pressures upon the lessee to pay the required lessor assessment. This provision has resulted in much of the quota being planted back on the farm where assigned. Farm Bureau has been supportive of one asessment at the point of sale. There have been some suggestions that one-half of the announced annual assessment be paid at time of leasing and the remaining one-half at time of sale so that all quota poundage would have the same amount paid regardless of whether it had been leased or not. However, we understand that administrative changes in this provision are limited and legislation would be necessary.

CARRYOVER TOBACCO

We feel that many problems are resulting from the production above 110 percent of the quota. We recommend that when tobacco is produced in excess of 110 percent in one year and carried forward on the farm or in the pool, that poundage for the following year be reduced in corresponding amount on the marketing card.

SUGGESTIONS ON THE BEST WAY TO REDUCE STABILIZATION STOCKS

We are supportive of pursuing every possible way and channel for moving stabilization tobacco. The PIK program should not be overlooked and should be given the same consideration by our Government as other farm commodities. The no-net cost provisions of our current program should merit favorable PIK consideration.

To further reduce stabilization stocks, we recommend that an aggressive direct sales of its tobacco inventory to foreign buyers be launched as soon as possible. The direct sales of stabilization tobacco could make the price of U.S. grown tobacco more competitive with foreign tobacco.

The idea of implementing a program in 1983 that provides for partial price support advances for Flue-cured tobacco has some positive aspects as well as negative aspects as determined by a special Farm Bureau committee in a recent study.

POSITIVE ASPECTS

(1) Could reduce the amount of money borrowed from Commodity Credit Corporation to finance the loan receipts.

(2) Could assume that interest costs will be lowered since 100 percent of price support advance will not be made to growers.

(3) Could assume that stabilization receipts may be lower than normal since some growers may voluntarily agree to accept a lower price submitted by a buyer.

(4) Could have effect of lowering future assessment rates since stabilization's financial outlay will be reduced.

(5) Could have effect of lowering the price support level since some growers may elect to sell below support price advance.

NEGATIVE ASPECTS

(1) Could erode the integrity of the current price support program.
(2) There could be a potential climate for buyers paying lower prices and growers willing to accept prices lower than loan.
(3) There could be created a situation that would cause discrimination against certain geographical areas. Example: In 1982 the following percentages of the various types went under loan: Type 14—10.12 percent; Type 13—24.16 percent; Type 12—32.05 percent; Type 11B—27.45 percent; Type 11A—18.78 percent. The history of stabilization receipts reveals a smaller percentage of receipts at the beginning of the season than at the end of the season.
(4) Could change legislative intent of the relationship of the cooperative association and the producer of tobacco.
(5) Could circumvent present separate legislation regarding the price support level.
(6) Could foster or cause creation of a two price system.
(7) Could allow or provide the Secretary with discretion to set or allow a lower price level related to world market conditions rather than the current domestic pricing formula using the three-year cost index average.
(8) Could promote bidding between two established pricing levels which might produce a climate for disrupting the present auction system.
(9) Could encourage more face to face bidding and selling between the producer and buyer, thereby encouraging more direct sales or contracting of tobacco and the return of a problem for which the auction system evolved to eliminate.

In our opinion, a partial price advance will have the effect of reducing the market average and could have the effect of eroding the integrity of the current price support program.

REQUIREMENT TO MEASURE ALL PLANTED ACREAGE

We recommend strict compliance so as to control any excess production which could impact adversely upon the program. Our policy position is: "We recommend that all planted acreage be measured for compliance and excess be destroyed with sufficient penalty to discourage overplanting."

OTHER RECOMMENDATIONS

We wish to express our concern regarding the Caribbean Basin Initiative now being considered by Congress. We feel that the Caribbean Basin Initiative presents certain problems of considerable magnitude for U.S. tobacco farmers unless effective safeguards or exemptions are incorporated in the legislation to adequately protect their interests.

We recommend an exemption for tobacco imports from the CBI since such imports into the Caribbean Basin countries for semi-processing would result in so-called scrap tobacco that could then be imported into the United States duty free.

This could result in effective elimination of all duties on the bulk of the tobacco imported into the United States by routing most U.S. imports of tobacco through Caribbean Basin countries for semi-processing in order to gain duty free entry into the United States. Not only would this be injurious to domestic tobacco producers but it would also deny to the U.S. Treasury the tariff revenue which is now applicable to tobacco imports.

Mr. Chairman, and members of the committee, we wish to express our appreciation for this opportunity to present the views of our organization. We pledge our support in assisting you in preparing the tobacco program for the next 50 year voyage.

Thank you.

EXHIBIT A

CURRENT PRICE SUPPORT FORMULA

COMPUTATION OF PRICE LEVEL ADJUSTMENT FACTOR FOR TOBACCO, 1972-83 WITH PRICE SUPPORT LEVELS AND PERCENTAGES ADDED

CROP YEAR	PARITY INDEX [1] PREVIOUS CALENDAR YEAR (1910-14 = 100)	% INC. FROM PREVIOUS YEAR	3 YEAR AVERAGE [2]	PRICE SUP. LEVEL ADJUSTMENT FACTOR [3] (1959 = 100)	PRICE SUPPORT LEVEL	% INCREASE
1972	407		385	131	72.7	
1973	425	+4.4	405	138	76.6	5.3
1974	490	15.2	441	150	83.3	8.7
1975	564	15.1	493	168	93.2	11.9
1976	614	8.8	556	191	106.0	13.7
1977	653	6.3	610	205	113.8	7.3
1978	687	5.2	650	218	121.0	6.3
1979	746	8.5	695	233	129.3	6.9
1980	850	13.9	761	255	141.5	9.4
1981	950	11.7	849	285	158.7	12.1
1982	1031	8.5	944	317	175.9	10.8
1983	1071	3.8	1017	341	189.2	7.5

SOURCE: USDA

[1] Index of prices paid by farmers, including wage rates, interest, and taxes. 1965-75 revised in 1976 using 1971-73 weights. For original data used for prior year calculations see TS-155, March 1976, p. 16.

[2] Three calendar years immediately preceding.

[3] Three year average parity index divided by 1959 parity index (298).

EXHIBIT B

FLUE-CURED TOBACCO PRICE SUPPORT PROJECTIONS UNDER NEW TOBACCO ACT AND BASIC FORMULA FOR YEARS 1982-88

CROP YEAR	BASIC FORMULA	PER POUND INCREASE	PERCENT INCREASE	65% BASIC FORMULA	PER POUND INCREASE	PERCENT INCREASE
1981	158.7					
1982	175.9	+ 17.2	10.8	169.9	+ 11.2	7.0
1983	189.2	13.3	7.5	178.5	8.6	5.0
1984	199.2	10.0	5.3	185.0	6.5	3.6
1985	207.0	8.0	4.0	190.2	5.2	2.8
1986	215.3	8.3	4.0	195.6	5.4	2.8
1987	223.9	8.6	4.0	201.2	5.6	2.8
1988	232.8	8.9	4.0	207.0	5.8	2.8

SOURCE: USDA DATA

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WHOLESALE CIGARETTE PRICE TRENDS

EXHIBIT C

Net Price Per 1000 — Excluding Federal Excise Tax

Date of Change	Standard	King Size	Filter Tip	100 Millimeter
March 1966	5.00	5.20	5.20	5.20
June 1967	5.25	5.45	5.45	5.95
November 1968	5.45	5.45	5.45	5.95
May 1969	5.80	5.80	5.80	6.30
May 1970	6.25	6.25	6.25	6.75
March 1973	6.45	6.45	6.45	6.95
January 1974	6.60	6.60	6.60	7.10
May 1974	7.30	7.30	7.30	7.80
November 1974	7.80/8.00	7.80/8.00	7.80/8.00	8.30/8.50
November 1975	8.55/8.75	8.55/8.75	8.55/8.75	9.05/9.25
October 1976	9.50	9.50	9.50	10.00
August 1977	10.35	10.35	10.35	10.85
June 1978	11.20	11.20	11.20	11.70
December 1878	11.75	11.75	11.75	12.25
June/July 1979	12.30	12.30	12.30	12.80
January 1980	13.05	13.05	13.05	13.55
May 1980	13.65	13.65	13.65	14.15
November 1980	14.50	14.50	14.50	15.00
April 1981	15.35	15.35	15.35	15.85
September 1981	16.20	16.20	16.20	16.70
February 1982	17.20	17.20	17.20	17.70
Aug/Sept 1982	18.70	19.70	18.70	19.70
October 1982	20.20	21.20	20.20	21.20
November 1982	21.20	22.20	21.20	22.20
Change	+$16.20	+$17.00	+$16.00	+$17.00
% Change	+324	+327	+307	+327

FLUE-CURED AND BURLEY TOBACCO SUPPORT PRICES
(per 100 pounds) AND MARKET AVERAGES 1966 & 1982

	FC Support	FC Mkt. Av.	Burley Support	Burley Mkt. Av.
1966	58.80	66.90 (P)	60.6	66.9 (P)
1982	169.90	178.54 (P)	175.10	180.61 (C)
Change	+111.10	111.64	114.50	113.71
% Change	+189	+167	+189	+170

P - Producer Price
C - Gross Price, including resales

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STATEMENT OF T. C. BLALOCK, EXECUTIVE VICE PRESIDENT, TOBACCO GROWERS ASSOCIATION OF NORTH CAROLINA, INC.

I am T. C. Blalock, Executive Vice President of the Tobacco Growers Association of North Carolina, Inc. On behalf of our members I want to express appreciation for the opportunity to testify before this Committee. We are extremely concerned over the future of our program and believe we must make certain constructive changes in order to reverse some of the trends we've experienced in recent years. We are equally convinced that the great majority of tobacco farmers are willing to support these changes. I base this statement on the results of over 3,000 responses from surveys our Association conducted during the past six months. Farmers told us they recognize that quality alone no longer sells U.S. tobacco. It must be price/quality competitive in the world market, for that's the arena in which we must now compete. These survey results, the meetings we've held and our individual contacts have convinced us they are ready to compete.

As a first step, and we recognize it will be a long journey, we believe it is imperative to freeze price supports for 1983 at the 1982 level. We wish this decision could have been made before farmers committed themselves to some high lease costs, but we do not believe we can afford to wait another year to send a signal to our customers around the world that we intend to become price/quality competitive.

We know that freezing price supports for one year will not be enough. We're not sure two years will be enough. But we do know that we do not want to have to go back to Congress in two years asking for additional legislative authorization on price supports. Therefore, we would prefer that beginning in 1984, the Secretary of Agriculture be given discretionary authority in setting price supports. We recognize the reluctance of some to give a Secretary of Agriculture this type of authority. There could be some limitations and "safety net" provisions included that would prevent supports from being set at unrealistically low or high levels. Price supports could be set in much the same way the current assessment levels are agreed upon for the Stabilization Cooperatives.

We have concern about the present proposal that calls for a two year freeze, with the possibility of one for a third year. Buying companies may be influenced in their buying decisions for 1983, knowing that they may be able to buy that same tobacco in 1984 at the same price. This could compound our present problems. Further, the present proposal may also not provide the flexibility on prices we could need for the next few years. There are so many factors that affect our competitive position, over which we have no control, that it is questionable if we should lock ourselves in. Given a choice between slightly lower prices or continued cuts in the quota, I'm confident our members would choose the former. We hope that's a choice we don't have to make, but we'd like to have that option if it's necessary.

Our Association was among the first to object to the double assessment and we remain opposed to it. We predicted that in most cases growers, not allotment holders, would pay the additional assessment. I believe this has proven to be true. We objected because we believed the net effect of the law would be to single out a particular group and require them to pay a disproportionate share of the cost of operating the Stabilization program. We still believe the double assessment should be eliminated in 1983. If that is done, it will provide some relief to those growers who, in reality, paid both assessments as well as a relatively high fixed lease rate and who now face a freeze on price supports. The trade off would be about equal.

We have no objections to the proposed provision to increase the new grower quota percentage from 1 percent to not more than 3 percent. We support the idea that 2 percent be set aside for new growers and 1 percent for needed adjustments among existing allotment holders. We would, however, want to insist that the current requirements to qualify for a new grower allotment be continued as they are.

We support the technical changes being proposed that would give Stabilization more flexibility in how the assessment funds can be used.

Over the past several months, no issue has been discussed more than that of lease and transfer. From the beginning our Association has been opposed to the elimination of lease and transfer. We are aware of some of the political liabilities associated with this phase of the program and obviously this has to be given due consideration. At the same time, we must recognize that there have been some very positive benefits from lease and transfer. It has allowed the development of cost effective production units. The average allotment in many counties in our state is less than 1½ acres in flue-cured and ¼ acre in burley. Production units of this size are highly inefficient and at a time when production costs and prices are of paramount interest to our program, we must not take action that will be counter productive. Further, over time, lease and transfer has allowed tobacco to move from those individual

farms and sections of counties less suited for the growing of tobacco to those farms and areas where soils and topography are more ideal. As a result, many centralized production units, involving significant financial investments, have been developed. To deconsolidate these operations will in many cases be impossible and in all cases expensive.

We support the concept of requiring the allotment holder to share in the risk of producing the tobacco. The penalties for violating the concept, through "under the table" payments must be severe and it may be necessary to increase the monitoring of enforcement efforts. A County Tobacco Advisory Committee to ASCS, made up of an active tobacco farmer in each township in which tobacco is grown, may prove helpful in this and other areas of continuing administrative and regulatory review of the program.

If it is the judgment of our tobacco Congressional leadership that more restrictive limitations on lease and transfer will be required to pass tobacco legislation, we would ask that the transition be a gradual one. We would request that, as a minimum, lease and transfer be extended to 1989 and again, would prefer to give the Secretary of Agriculture authority to continue it if he deemed it to be in the best interest of the program. There are some modifications that you may want to consider. An exemption on small allotments for a longer period of time would help both growers and allotment holders. We support reasonable efforts that over time will encourage allotments to move into the hands of growers. But this cannot occur too fast or allotment holders will suffer because of a depressed market. A young grower, producing 40 acres of tobacco through the lease and transfer program, who owns little or no allotment or land, could be looking at an additional indebtedness of in excess of $250,000. For most, that kind of financing is not available.

A second option that we believe has merit would be to continue to allow the transfer of tobacco allotments by an operator of two or more farms where that operator also produces all of the row crops on those farms. A farmer can afford to go ten miles to grow 15 acres of corn or soybeans. He cannot drive that distance to grow one acre of tobacco. This provision would allow the continued efficient use of many consolidated and centralized production units.

During the discussion of the No Net Cost Tobacco Bill of 1983, an inheritance provision was briefly considered. We would suggest that you may want to take another look at that proposal to see if it will help respond to the concerns of some of our critics. It would obviously, over time, accelerate the transfer of allotments to active growers but would give protection to widows and minors who are presently dependent on the income from their tobacco allotment.

Our Association represents both flue-cured and burley, and our burley members support these changes. There are, however, further changes that our burley-members want to see included in this legislation. First, they want to be allowed to sell allotments in the same manner as flue-cured. Secondly they want the provision to be able to retain allotments by designation when selling a portion of the farm—as allowed in flue-cured—so long as they meet the current requirements of two acres of tillable land for each acre of allotment.

We would like to take this opportunity to commend Secretary Block for his recent announcement that there would be no carryover pool in 1983. We believe carryover tobacco from the 1982 crop had a significant impact of the cost of leasing in 1983. We would request that in the future, should a carryover pool become necessary, that ASCS be allowed to reduce allotments proportionately for the following year at the time farmers are notified of their allotment and effective quota.

In closing, we want to again impress on this Committee the seriousness of the current situation and the need for action in 1983. We have talked to enough of our customers both domestic and foreign, to be convinced that unless we do something this year about both the price and quality of our tobacco, we may not be able to save the program as we know it today. We fear that if we take no action, many buying decisions will be made this year that will be irreversible for many years to come. Experience has shown that it is always difficult to get customers back once you've lost them. We simply can't afford to lose any more customers. Our members have essentially said to our Board of Directors: "Do what you have to to avoid the continuation of these quota cuts." We believe the proposals under consideration, with the modifications we've offered, will do this and we urge you to move legislation forward in time to be effective for the 1983 crop.

STATEMENT OF HOWARD D. MOYE, JR., EXECUTIVE VICE PRESIDENT, UNITED TOBACCO GROWERS ASSOCIATION

When the U.S. established it's tobacco cartel we produced 83 percent of world exports of flue-cured tobacco. Predictably, the U.S. share of exports has decreased. Now it is less than 20 percent. The volume of world export increased 400 percent during this fifty-year period.

Now, technology is widely dispersed and Brazil, India, Korea, Italy, Zimbabwe and other adept competitors are well positioned for further expansion. The U.S. has suffered a 50 percent loss of production (quota) since 1975. Projections indicate 40 percent to 50 percent further losses in quota (sales) in the next five years. Mainland China increased production 54 percent in 1982. Brazil, Argentina, Zimbabwe, Thailand, Phillipines increased production by 32 percent in 1982. Even Canada increased 8 percent as the U.S. reduced 10 percent in 1983.

Non-grower quota owners, have not been concerned about market erosion. Their attention has been focused on maximizing quota rents. Due to their numbers, therefore political clout, they have dictated tobacco program management.

Since 1975, the program has been mismanaged by non-producing quota owners. Today, quota is not a good investment for anyone. Until now, quota cuts have not reduced quota owners income. They have extracted larger shares of the potential profits as lease rents. They now confiscate 127 percent of the profit in Pitt County, North Carolina. At 80 cents per pound rent, the potential for higher rents to offset future quota cuts is exhausted. Everyone recognizes this to be a short run situation. Therefore, quota has assumed a historically low value in relation to its annual rents. In fact, quota value has declined by 74 percent since 1975. Quota reductions, grower protest, uncertainty as to the duration of the program lowers quota values.

Our failure to share in expanded world flue-cured tobacco consumption has denied U.S. growers and the economies of tobacco growing areas rightful prosperity.

The U.S. tobacco is the world's quality standard and maintenance of U.S. prices at a high level stabilizes the world price of tobacco.

World price stability encourages foreign tobacco production.

The European Common Market and other nations use buyers premiums, artificial trade barriers and tariffs to isolate their home markets and subsidize exports.

Domestic content legislation in the U.S. is justified until other nations remove their trade barriers.

If U.S. farmers are allowed to freely produce for world trade we can attain our export potential.

Domestic cigarette manufacturers who profit from importing subsidized foreign tobacco will naturally criticize this proposal. International tobacco dealers with overseas investments will predictably protest.

Complete deregulation will benefit U.S. growers!

Phased-in deregulation requiring the removal of other nations' trade barriers and subsidies would benefit U.S. growers and the economy of the tobacco producing areas much more.

The United Tobacco Growers Association cannot approve of any "program reform" that does not allow a U.S. tobacco grower freedom to compete in world trade.

We welcome free trade in tobacco but we favor forcing other countries to compete freely also.

On the issue of price supports: There are two alternatives that will preserve stability in U.S. tobacco growing and allow U.S. growers to effectively compete in world trade:

1. Lower price supports to a competitive level and begin a planned expansion of quota (5 percent ± per year). This lowering of price supports removes the profits available to pay quota rents of any magnitude or to purchase quota of any significant value. Lowering price supports to a competitive level destroys most of quota's present perceived value. It will cause a harsh readjustment to quota owners who now lease out the quota. Quota value and lease income will immediately be lowered.

2. The second alternative is to reduce amounts of quota to equal domestic consumption and barring subsidized imports. This would preserve most of the value of quota. Price support could be maintained at "parity" levels. The presence of higher priced U.S. tobacco in U.S. cigarettes would hardly be reflected in the retail price of the consumer product. The effect is to funnel more of the U.S. tobacco consumers' money to the U.S. farmer and/or quota owner, rather than to U.S. cigarette manufacturers' profits.

Production of unlimited amounts for export and domestic manufacture for export would allow the presently handicapped U.S. tobacco grower to regain his foreign markets.

The most formidable competition that the U.S. grower faces today is subsidized in the export markets by their governments. If Brazil, Argentina, Zimbabwa, etc. are insulated from the possibility of "real world" competition from U.S. tobacco growers during a "phased-in" long-term decrease in U.S. export prices, they will capture even more of our markets and possibly be unremovably entrenched.

The best way that the U.S. can become competitive in world trade is to adopt a phased-in deregulation.

Excess profits from domestic consumption will not affect domestic consumer prices appreciably and could provide profits to allow U.S. growers to compete in world markets against foreign government-subsidized competition. Tobacco production in Brazil and other nations is increasing due to their government subsidies and with the technological assistance and encouragement of U.S. manufacturers and international tobacco dealers.

Considering the past mismanagement of the U.S. tobacco program one cannot blame the merchants and manufacturers for seeking to develop more affordable sources of supply.

But, in the case of U.S. manufacturers, the demands that they make of tobacco state members of Congress on smoking and health and tax issues are inconsistent with the lack of support that they have given to the U.S. tobacco farming industry. The great increase in imported tobacco has caused quota cuts that have inflicted much financial harm to U.S. tobacco growers and the economies of the states involved.

Recently, Fortune Magazine quoted a Tobacco Institute spokesman as saying, "The growers scratch our backs and we scratch theirs." The political "trades" detrimental to the interests of non-quota-owning citizens of tobacco states that are necessary to move tobacco legislation or stop smoking and health legislation, must be economically justifiable. We believe the economic impact of tobacco growing in most states is substantially more than that of cigarette manufacturing. Wise politicians will propose legislation and vote for the economic benefit of the majority of their constituents.

In summary: Deregulation will allow the U.S. tobacco grower to compete in world trade unhindered by non-productive costs of quota. Short-run price instability will likely destroy some U.S. growers who have been financially weakened by years of high lease rents. But more years of high rents, uncompetitive pricing and being forced to purchase quotas at unrealistic prices will also eliminate many growers.

De-escalation of support prices and planned quota expansion coupled with an equitable transfer of quota to tobacco growers would be satisfactory. However, lowering support prices to competitive levels will destroy the presently perceived value of quota. Those who depend on high lease rents and equity in quota value will have to re-adjust. Re-adjustment will be sudden and harsh, but it already is harsh for those farmers forced out of their livelihoods by present program mismanagement.

Phased-in-deregulation could be the best alternative if politicians will consider quota owners, farmers and the economies of producing areas above the profits of domestic cigarette manufacturers. A gradual lowering of domestic quota tobacco prices would eventualy put all U.S. tobacco farming on a free market basis without the shock inherent in the first two alternatives.

Irregardless of your decision, the United Tobacco Growers do not intend to be mandated out of business by any more quota reductions. We desire the stability of a program but do not fear the free market.

On price support freeze proposal: A price freeze in 1983 is unfair to the growers who have paid lease rents in anticipation of the projected price support level. A two or three year freeze is too little, too late.

On elimination of the double assessment: We favor this proposal.

On increasing quota available for new growers: We favor this proposal.

On stabilization's expanded use of no-net cost funds: We favor this proposal.

On abolishing cash rents: We favor this proposal.

On ending lease and transfer in 1986: We favor this proposal but would like to see this accomplished as early as 1984. However, to force one who leases out quota to sell is to force one who leases in quota to buy if he is to continue tobacco farming.

The average tobacco farmer who has been paying lease rents is not financially able to purchase sufficient quota unless provision for installment sales is made mandatory.

We favor this definition of an active tobacco farmer and this method for redistribution of quota:

a. Guarantee that only active farmers are eligible to buy quota. (Active Farmer—one who contributes the same percentage of cash production cost, as he receives of the gross proceeds of sale of crop).

b. Payment for quota to be extended over five years. A.S.C.S. will act as agent in sale agreement, handling collection from purchaser, and payment to seller.

c. All quota available to be sold will be pooled in each county.

d. The right to purchase quota from such pool will be based on the last five year production history (owned and/or leassed). Provisions should be made to assure some new entry into quota.

e. Pool quota will be sold in equal amounts to all eligible and interested farmers. The distribution will continue on an equal basis until each farmer's production history figure is reached. (If there are 100 farmers seeking quota, and there are 100 pounds in the quota pool, each farmer would get one pound. If pool poundage exceeds all production history figures, extra poundage will be distributed on an equal basis to all applicants desiring quota in excess of their eligibility).

f. A county committee should be empowered to establish a maximum value for quota. Legislation should instruct the Secretary of Agriculture to devise a method to determine the fair market value of quota.

Failure to structure the redistribution of quota could cause the creation of "super farms." The government issued tobacco quotas at no cost to the farmers in 1938. The government may abolish quotas and certainly would be wise to structure the redistribution so as to preserve the family farmer.

STATEMENT OF ROBERT L. NASH, PRESIDENT, GEORGIA FARM BUREAU FEDERATION

I am Robert L. Nash, President of Georgia Farm Bureau Federation, Macon, Georgia, a general farm organization with 147,469 members of which 25,703 are tobacco farmers. I appreciate the opportunity to appear before the Senate Agriculture Committee and make comments concerning the issues of the "No-Net Cost Tobacco Program." Georgia Farm Bureau feels that modifications should be made to the present tobacco program to better serve the grower and also place U.S. flue-cured tobacco back in the world market.

The assessment of the "No-Net Cost Tobacco Program" has been a problem this year. The intent of the program was for the tobacco farmer to be assessed an amount to pay for the cost of the tobacco program, but as most of you know, when the producer leased the tobacco for 1983, the allotment holder asked that the assessment amount be paid by the producer. When the producer sells his tobacco, he will have to pay again, thus he will have paid 14 cents this year. Georgia Farm Bureau would like to suggest that the assessment be paid only one time by February 15th each year to the ASCS office.

The No-Net Cost Tobacco funds that are collected by Stabilization sees fit, with the approval of the Secretary, to reduce Stabilization stocks in 1982 and other years, with the intention of operating the "No-Net Cost Program" at no cost to the farmer. Stabilization should be treated as any other co-operative operating price support program under regulations issued by the Secretary of Agriculture.

Georgia Farm Bureau is well aware of the lease and transfer problem and would like to recommend that beginning with the 1984 crop that cash renting of allotments be abolished. Allotment owners must share in the risk of producing the tobacco crop, even if they lease on transfer. We feel that beginning with the crop year of 1986, all lease and transfer should be abolished. The holder of any flue-cured allotment beginning in the 1986 crop year may either, grow his allotment himself as an active grower on the land to which the allotment is assigned or rent or lease (share in the risk) to one who is an active grower with the allotment to be grown on the land to which it is assigned or sell the allotment to an active grower in the same county.

Georgia Farm Bureau would like to recommend that the loan price for 1983 and 1984 be held at the 1982 loan level. This would allow U.S. flue-cured tobacco to be competitive in the world market and with the demand for our quality tobacco, the U.S. could regain its share of the world market.

I would like to express my appreciation for the opportunity to appear before this committee to make comments on the tobacco program. I will be glad to answer any questions at this time.

Thank you.

STATEMENT OF RAY MACKEY, PRESIDENT, KENTUCKY FARM BUREAU FEDERATION

Mr. Chairman and members of the committee, I am Ray Mackey, President of the Kentucky Farm Bureau Federation.

We appreciate the opportunity to discuss with you the views of a large majority of the more than 200,000 Kentucky tobacco producers who share in an annual income that is approaching one billion dollars.

As you consider suggestions for possible change in the tobacco price support and quota program, we would like to remind you that Kentucky tobacco producers continue their overwhelming support for the program. This is evidenced by the fact that more than 97 percent of those voting in the recent burley referendum voted to continue the program for another three years.

At the outset we would like to say that S. 1179 is wholly unacceptable to tobacco producers in Kentucky. Producers have invested heavily in land, buildings, equipment and the knowledge required to produce an acceptable supply of burley and dark tobacco necessary to meet the demands of the trade and consuming public. Some assurance of a fair return on investment and labor is vital to their well being and to their ability to continue to produce this valuable crop. Contrary to what some misinformed persons and groups seem to think the production and use of tobacco in this country has not been outlawed and it is still a legal commodity that is contributing greatly to the economy of the entire country.

Those who would destroy the tobacco program are attempting to heap financial destruction on the heads of hundreds of thousands of farm families in Kentucky and the other tobacco producing states. Tobacco is the largest cash crop in Kentucky, as it is in a number of other states. It produces important income to farm owners, sharecroppers and tenants and contributes greatly to the entire economy. It is also a most important source of revenue to all levels of government.

Enemies of the program often depict tobacco quota holders as wealthy plantation owners with large quotas. Nothing could be farther from the truth. Burley tobacco in Kentucky is produced on more than 140,000 quotas that average less than one acre. Tobacco income permits thousands of small farmers to remain on the farm and to provide family necessities without turning to tax supported welfare, food stamps and other government programs. Many quota holders are widows, older couples or disabled who have worked and paid for their little farms, have investments in their quotas and are proud to be independent taxpayers instead of wards of the state. They are loyal American citizens who are proud of their heritage. Destroying the tobacco program would not solve anything but would certainly create many problems.

We also call to your attention that the tobacco program has been one of the most successful of all farm programs. It has not only assured producers a fair return but has also helped provide assurance of an ample supply for the various handlers and for those who use tobacco for manufacturing and for sale to foreign countries.

We, therefore, urge you not to react too drastically to situations and conditions that have developed almost overnight during these unusual times. The program prior to 1982 has a splendid record of reacting to changes in production, supply levels, demand and the general economy. The price support formula is designed to react to changes in the economy and has done that well for more than 20 years, and quota adjustment allow the Secretary of Agriculture to control production and supply levels to reflect demand in a manner fair to both producers and the trade. If, however, tobacco legislation is developed by this committee, we recommend that it include some changes in the burley tobacco program which would permit it to operate more smoothly and effectively.

The ratio of domestic production to the reduced amount purchased by the trade, the increased amount imported from foreign countries and the greatly increased amount placed under loan in 1982 makes it apparent that the Secretary of Agriculture should be given more latitude in adjusting burley quotas when supply levels are excessive and the effective quota exceeds normal disappearance. Therefore, we recommend that the Secretary be given authority to reduce quotas by at least as much as 15 percent which is the current authority for flue-cured tobacco.

Small quotas, the costs involved with moving equipment from farm to farm by tobacco producers and the many other advantages associated with leasing have made it a very popular feature of the burley and dark leaf programs in Kentucky. Although you hear some suggestions that tobacco should be required to be produced on the farm to which the quota is attached, there is little indication up to now that many producers would support a move to abolish leasing privileges for burley and dark tobaccos. It can be effectively argued that the cost of leasing quotas must be taken into consideration by the lessee and adds to the cost of production to those

making the decision to lease in additional quota, but it should be remembered that leasing is a private treaty and the costs are not a factor in determining the price support level and that the current formula will not be affected if leasing is abolished. To address the concerns that have been raised on the extent of lease and transfer, we recommend that the current 30,000 pounds leasing privilege be reduced to 15,000 pounds.

Also, producers are willing to discontinue the current privilege of fall leasing of burley quotas and we, therefore, recommend that leasing privileges after July 1 of each year be discontinued.

Section 316B entitled "Mandatory Sale of Certain Burley Tobacco Acreage Allotments and Marketing Quotas Held Before Enactment" as enacted in the 1982 act and interpreted by the USDA in its proposed regulations appears to create a multitude of problems, many of which may not yet be recognized. The major problem seems to be in the language stating that the person owning the land must be "significantly" involved in agricultural production and the interpretation given to what constitutes "significantly involved." Our belief is that it was intended that the term "significantly involved" should apply to the land itself and that it was meant that entities (corporations, cities, airports, etc.) which are not possessed of sufficient tillable tobacco acreage be required to sell their quotas to active producers no later than December 1, 1983 or forfeit them. We recommend that this change be made.

We recognize that over-supply is the major cause of our present problems with the operation of the tobacco program. Growers ability to produce their quotas have been fully demonstrated the past two years and production has exceeded the amount anticipated by the Secretary. This situation, however, can soon be corrected with adjustments in the basic and effective quotas. The other large contributor to surplus supply is foreign grown tobacco. On a long range basis this is the largest contributor to our problems and one that must be dealt with if total supply is to be brought in line with demand and domestic producers are to be permitted to continue their historic position of providing the tobacco supply needs in this country. To deal with one of these problems and not the other is not sufficient. To provide for further restrictions on domestic producers either in price or quota amounts and not deal with the problem of imports is akin to asking a country to lay down its arms while permitting its enemies to enlarge their arsenals. When a million pounds of foreign grown tobacco lands on the shores of this country one of two things must happen. Either American producers must lower their production by a million pounds or a million pounds of domestic production must go under loan. Neither of these alternatives can be considered attractive to domestic producers, the general economy of this country or to the future stability of the tobacco industry itself.

We believe it is fully understandable why farmers are reluctant to embrace either reducing or freezing price supports while there appears to be no real effort being made to come to grips with the ever growing import problem.

Farmers also fully understand that their costs will continue to rise or fall with the general economy. If the Congress would come to grips with growing inflation, deficit budgets, increases in costs of other government programs including entitlements, we don't doubt for a moment that Kentucky farmers, including tobacco producers would be more than willing to join with the others.

As each of you know, our current price support formula operates on a three-year moving average. It is, therefore, only normal that during this period when inflation rates have dropped that the formula would produce increases in price support levels at a more rapid rate than when the economy is growing. This will soon catch up, however, and the formula will begin reflecting the current low inflation rate and will slow down the price support increases. In their wisdom, those who designed the formula intended for it to react slowly to sudden and drastic changes. This is not only important to farmers but to mortgage holders, farm supply merchants, fertilizer distributors and many others. It likewise is important to those who depend on domestic tobacco for their supplies since the formula works both ways and permits accurate predictions and planning. It is interesting that we never heard any complaints when the rate of inflation was increasing rapidly, reaching double digit levels, a few years ago and the formula was then lagging behind. What we are experiencing now is a result of that period and the catching up mechanism built into the formula.

We sincerely believe that any action to change the price support mechanism should and must also deal with the increase in imports which is the major problem currently facing tobacco producers and the future of the tobacco program. We must find a way to deal with foreign suppliers who are able to undersell American producers because of direct government subsidies and other policies which give their tobacco an unfair trade advantage over ours. Our program is designed to help see to

it that prices meet producers' costs. Their's is designed to lower the price of their tobacco to even attract American manufacturers and dealers with the difference paid by their governments. Some of the largest suppliers of offshore tobacco require their cigarettes to be wholly manufactured from tobacco produced in their countries while shipping millions of pounds of their excess to this country. Until we come to grips with these problems we will never be able to match the price differential. It seems to us that it's high time that we start adopting and enforcing some fair trade policies within the framework of our free trade philosophy.

Practically every major change we have heard suggested for improving the tobacco program seems to be designed to penalize the American tobacco producer and benefit others. Two years ago, growers assumed grading and inspection costs. Last year tobacco producers lost one of the most basic elements of every successful farm program—the non-recourse loan concept. During 1982 wholesale prices of cigarettes increased some 20 percent over and above the Federal tax increase while producers' prices rose less than 5 percent. Costs of production and the cost of marketing continue to rise and now we are expected to meet prices artificially set by foreign competition. You surely can see why producers are in a great dilemma for they see it as being most inconsistent to increase the price of cigarettes almost twice the amount that farmers receive for the tobacco contained in them and at the same time press for lower producer prices.

Producer support last year for enactment of the no net cost legislation which the entire tobacco industry supported is a clear indication that producers are willing to act responsibly to preserve the tobacco price support program.

After a year's experience it has become apparent that producer responsibility alone is not sufficient. Buying interests were successful in encouraging an increase in quota and then allowed more than 260 million pounds to go under loan—creating a heavy financial burden for producers.

In summary, Mr. Chairman, the success of the tobacco support program is dependent on keeping supply in line with demand. In order to accomplish this and in order to guard against the no net cost program becoming a millstone upon the backs of producers, we recommend the following:

(1) Increase authority to reduce quotas to 15 percent or more.

(2) Reduce amount of quota which an individual can lease in from 30,000 pounds to 15,000 pounds.

(3) Limit leasing to a period each year from February to July.

(4) Give producers relief from expanding imports.

(5) Expand no net cost assessment to include the buying trade.

(6) And last, clarify the mandatory sale and forfeiture provision to apply to land instead of the occupation of the owner.

STATEMENT OF DR. MILTON SHUFFETT, PROFESSOR OF AGRICULTURAL ECONOMICS, DEPARTMENT OF AGRICULTURAL ECONOMICS, COLLEGE OF AGRICULTURE, UNIVERSITY OF KENTUCKY

Mr. Chairman and members of the Committee. Thank you for the opportunity to present this statement. I am a professor in the Department of Agricultural Economics at the University of Kentucky. I appreciate the opportunity to appear before your Committee and present views on some of the changes being considered in tobacco legislation. My remarks relate mainly to the proposals that have been advanced for flue-cured tobaccos and the likely impacts such changes would have for burley. The statement represents my personal assessment of the proposed changes and is not intended to reflect a position of the College of Agriculture at the University of Kentucky.

The burley situation has changed greatly during the past two years. Very large crops in 1981 and 1982 and the recent declines in cigarette use due to tax increases, price increases, and other reasons resulted in reduced purchases on the auction markets for the 1982 crop. Approximately 270 million pounds of the 1982 burley crop was placed under loan, and producers face higher assessments for the 1983 crop under the provisions of the no net cost program.

The proposals for flue-cured tobacco that are most applicable to burley are the price support freeze and the proposed changes in the leasing program.

PRICE SUPPORT FREEZE

The basic problem that has developed over the past decade related to domestic tobacco prices has been the increased availability of offshore tobacco that is priced much lower than U.S. burley. Burley exports have exports have expanded but the

U.S. share of world trade in burley has declined sharply. At the same time imports of burley have increased to the point where 20 percent or more of the burley used in domestic manufacturing is foreign grown. April 1, 1983, stocks of foreign grown burley in the U.S. amounted to 286.4 million pounds.

Would a freeze in price supports enable us to regain our position in world trade and reduce the erosion of our domestic market? I believe this is the critical issue in price. Certainly the price differential between U.S. and foreign tobaccos would be narrowed over time with a freeze but a substantial differential would remain. Any response in increased exports and reduced imports will involve a time lag given the present supplies in trade channels. An unfavorable impact of a price freeze at the 1982 level is the dilemma this will pose for loan associations by making it more difficult to move stocks back into the trade and this will lead to even higher assessments on producers in the future under the provisions of the no net cost program.

ELIMINATION OF LEASE AND TRANSFER OF QUOTAS

Cost of production studies indicate that returns to burley quotas average about 50 cents per pound. Actual lease prices for burley often differ from this amount depending on local supplies of quota available for lease and demand for quota. Many producers may not have alternative uses for family labor, may not feel that it is necessary to cover fixed costs each year or may be able to achieve high yields and as a result will pay more for leased quota.

The high lease prices that exist are interpreted by opponents of the program as an indication of a "feudal" system and are regarded as unfair by young producers wishing to expand their production of tobacco. High lease prices create a serious image problem for the tobacco programs.

Presently about 20 percent of the burley quota is leased and transferred, with far more quota holders leasing out than leasing in. Generally quotas held by older persons, nonfarm residents, and in small units are leased to larger producers.

Legislative action to withdraw the privilege of lease and transfer of quotas over time would deprive many quota holders of income from an asset that they purchased when their farms were acquired. Efficiency of production would be reduced with no leasing permitted, although the quota could still be share rented or cash rented.

If leasing should be prohibited, as proposed for flue-cured tobaccos, it might be useful to authorize sale of burley quotas similar to that in flue-cured. Those who cannot produce could realize a return on their investment in quota and those wishing to expand production could acquire additional quota. This would be very effective in moving quota into the hands of active producers and those wishing to expand their tobacco enterprise for more efficient production.

Other aspects of the proposals advanced for flue-cured tobacco seem less important to me than the price of tobacco and the cost of leasing. To become more price competitive the price freeze offers some improvement. At the same time the freeze jeopardizes sales of stocks under loan. Getting loan stocks back into the trade can only be done by reducing production and/or increasing use. Increasing use is more desirable than reducing production but is much more difficult to achieve. The ultimate sulution will likely require some use of each of the alternatives and to this end it would seem to be advisable to provide the Secretary of Agriculture additional latitude in setting annual quotes for burley. If a price freeze is implemented, increased producer assessments under the no net cost program will be needed on future crops to provide the cooperatives some latitude in pricing their stocks.

Again, I appreciate this opportunity to appear before the Committee and personally appreciate your efforts on behalf of tobacco. Tobacco has provided the only stabilized sector of the rural economy in Kentucky and other southeastern states for nearly half a century and I applaud your efforts toward making the changes needed to retain this vital program.

Thank you.

STATEMENT OF FRED G. BOND, GENERAL MANAGER, FLUE-CURED TOBACCO COOPERATIVE STABILIZATION CORPORATION

Mr. Chairman and Members of the Committee;

I am Fred G. Bond, General Manager-Secretary-Treasurer of the Flue-Cured Tobacco Cooperative Stabilization Corporation. Stablization is the grower Cooperative which administers the flue-cured tobacco price support program.

The 1983 marketing season will open in about 5 weeks. We have been making plans for receipts of around 150 million pounds. Sales of old crop, including the 1982

tobacco crop, are substantially below sales for the comparable period last year. By year end, total stocks in storage could be around 750 million pounds plus. If this be the situation, 1984 quotas could be subject to 10 percent plus reduction and growers will be faced with a probable assessment in double digit figures. In my opinion growers will have difficulties underwriting and financially supporting an inventory of this size.

Following are observations and suggestions, which could be a part of the ultimate solution on tobacco problems:

A fact that is now basic to any solution, is the new law—the NO NET COST TOBACCO ACT OF 1982. Its effect and impact is far reaching; it has transferred financial responsibility; it has eliminated non-recourse CCC loans; it has placed upon the growers a financial commitment and liability for every pound of tobacco consigned to Stabilization beginning with the 1982 crop.

Therefore, we now proceed from a new base; a new legislative authority—completely different as day is from night when compared to the old law. With this understanding we must reassess the re-think our position. It now appears that it is not economically feasible, under the NO NET COST legislation, to operate a price support program as we have in the past. The compatibility is not there.

We must get back to some basic fundamentals—such as recognition for which the quota was initially established. It was assigned or given to a farm for the specific purpose of growing tobacco. Those who drafted the original legislation had no other intent or purpose; therefore the Congress must seek ways and means to restore the original intent which may require allotment holders who are not growing tobacco to:

(1) Actively grow the allotment or share in the risk; or
(2) Sell the allotment to an active grower within the same county; or
(3) Forfeit the allotment.

Under the new legislation the level of price support is a vital matter to the individual grower. Under the new law it is equally as important in operating a successful NO NET COST PROGRAM. This would suggest a review of the level of price support. The price support level in one way or another has an impact upon:

(1) Stabilization receipts.
(2) Crop management—quality, uniformity.
(3) Grower income.
(4) Grower assessments.
(5) Lease rates.
(6) Adjustment in quota—size of quota.
(7) Domestic purchases.
(8) Overseas purchases.
(9) Imports.

What level now, under the new law, should the price support level be established:
At a level to guarantee the grower no losses; or
A level to guarantee profits; or
A level somewhere in between.

What was the original congressional intent and what should be the intent or objective of the loan level under the NO COST legislation. Price support levels should not be at levels to cause growers to produce for delivery to Stabilization without regard to quality or uniformity—there has been feedback that some growers can produce tobacco for Stabilization and realize ample profit. If this is true then we are in for real trouble, particularly under the new legislation.

The present formula should be maintained. It also should be pointed out that leasing costs are not a part of the formula nor should they be a part of the formula.

Also, positive consideration should be given to measuring planted acreage as was the practice and requirement in previous years to curb excess production.

A PIK type program for agriculture commodities may not be applicable to tobacco; however, there may be other recent programs authorized in USDA for other commodities that would apply to tobacco. Tobacco growers like any other commodity producers should have an opportunity to participate in such programs.

With reference to Stabilization making a partial advance at the auction market in lieu of the full rate, this is an option that Stabilization has studied and considered; however, action on this proposal has been tabled by the Board at this time.

There ultimately must be a program that will provide an end to quota cuts and pave the way for quota increases; there must be a program to minimize annual assessments; there must be a program that places emphasis on quality and uniformity; and there must be a program which does not encourage growers to produce tobacco for delivery to Stabilization.

All of this suggests lower or stabilized loan rates, hopefully resulting in a normal amount of tobacco being consigned to Stabilization and further resulting in assessments which can be set at rate comparable to the 1982 level of 3 cents.

The Board has reaffirmed its position taken in October 1982 and reaffirmed at the March 1983 Board meeting that the 1983 support price level be set at the 1982 level; however if for any reason it is not possible to secure legislation to provide for this, the Board recommends that a freeze in price supports be considered for the 1984 and 1985 crop years and return to the present price support formula for the 1986 crop year forward as it is evident that it is too late for the tobacco farmers and the opening of the 1983 market to adjust to legislation for the 1983 crop year.

These considerations suggest that maybe we can stabilize our position in the world market and ultimately turn the corner to increase sales and increased quotas.

STATEMENT OF HUGH C. KIGER, EXECUTIVE VICE PRESIDENT, LEAF TOBACCO EXPORTERS ASSOCIATION AND TOBACCO ASSOCIATION OF UNITED STATES

Mr Chairman, my name is Hugh C. Kiger. I am the Executive Vice President of Leaf Tobacco Exporters Association and Tobacco Association of United States.

Members of these associations purchase about 70 percent of the tobacco grown in the United States and export practically all of the U.S. unmanufactured tobacco shipped overseas. Our members export practically all types of tobacco, however, because of time limitations I will confine my testimony today to the flue-cured tobacco program.

It is the purpose of our associations to protect and promote the market for American leaf tobacco. Each season, our member firms spend millions of dollars and send hundreds of salesmen overseas and employ hundreds of supplier agents primarily for the purpose of selling U.S. tobacco. Over the years we have strongly supported an open international trading system and have worked diligently to achieve better access for U.S. tobacco on foreign markets.

Mr. Chairman, we're here today because the tobacco program is in serious trouble. It's in trouble economically because we can no longer assure our foreign and domestic customers an adequate supply of high-quality U.S. leaf at competitive prices, and, as a result, Pool takings have increased substantially. It's in trouble politically as evidenced by the recent legislation introduced in the Congress to abolish the program and due to the fact that the "No-Net-Cost" program is not working.

Over the years, LTEA has supported the tobacco program. We continue to support a tobacco program, however, we feel that the current tobacco program must undergo significant changes if it is to survive. This position is consistent with the policy of most other tobacco associations.

The LTEA believes that the survival of the tobacco program is vital to the future health of the tobacco industry and to the economies of the many small rural communities that depend on tobacco for a livelihood. But, the program will not survive, it cannot survive unless it is brought into line with the realities of the 1980s. This requires that we make major changes in the tobacco program and that we make them now before the problems get worse.

The tobacco price support is based on an archaic parity formula which, while paralleling inflation, has not taken into consideration the economic savings in production costs such as increase in yields from 1400 pounds per acre to over 2000 pounds, loose leaf sales, mechanical harvesting, bulk curing, and more efficient cultivation. Under this formula, tobacco prices have escalated at such a rapid pace, without consideration to the above cost reductions, that U.S. tobacco has lost its competitive position in world markets. As a result, our foreign customers have begun to look elsewhere for supplies. Countries like Brazil, India, Canada, South Korea, Zimbabwe and Thailand have responded by increasing production and improving quality. In 1970 the United States produced thirty percent of world production of flue-cured tobacco. This has declined today to only sixteen percent, and the U.S. decline occurred at a time when world production was expanding by 3.5 billion pounds. Similarly, the U.S. share of world exports of unmanufactured flue-cured tobacco has declined from about forty-six percent of the world market in 1970 to less than twenty-six percent (See Appendix A).

As disappearance (domestic use plus exports) has declined, stocks of over-priced leaf have accumulated in Stabilization inventory and pressures have increased to cut domestic production. The effective flue-cured quota in 1983 will be down almost nine percent from the 1982 level. With normal weather U.S. marketings of flue-cured tobacco are estimated at about 897 million pounds, which is 33 million pounds less than estimated 1983 disappearance, 100 million pounds less than 1982 market-

ings, and over 500 million pounds less than 1975 marketings. Unless this program is modified so that this trend can be reversed, the U.S. could be producing only 600 millon pounds by the end of this decade. It's a vicious cycle of higher support prices, reduced sales, lower production quotas and higher lease rates. And, the big loser in this process is the grower. If the tobacco isn't produced, the rest of the industry, warehousemen, dealers, manufacturers and exporters are losers too.

A deterioration in our tobacco economy will adversely affect a broad cross-section of the economy of the tobacco producing states. In addition to the growers, warehousemen, exporters and manufacturers, some of the tobacco-related industries and services which will be adversely affected include: bankers, truckers, railroads, shipping lines, ports, tobacco equipment manufacturers, pesticide and chemical firms, plant food firms, merchants, seed companies, retailers, wholesalers, etc. Thus, it can be seen that a deterioration in our tobacco economy will have an adverse effect on the six million citizens of North Carolina, as well as the citizens of other producing states.

Tobacco processing plants in the United States are geared to handle a flue-cured crop of about 1.2 billion pounds. With a reduction in the crop to about 900 million pounds, it means that these plants are operating at about 75 percent of capacity. If this trend continues, some processing plants will be forced to close. Operating far below capacity and/or closing of plants adds to the unemployment problem.

The grower can't live with continued reductions in quota. As the quota is cut, farmers are forced to lease in additional pounds in order to operate at peak efficiency. If less pounds are available as is the case in 1983, the cost of leasing quota must go up. Lease costs of fifty to sixty cents per pound were commonplace in the flue-cured area last year, and some of these have increased to seventy or eighty cents a pound this year. This is money that is committed up front before the crop is even planted. In addition, as growers are forced to reduce plantings, their cost will increase as overhead (machinery, bulk barns, etc.) will have to be spread over fewer pounds.

However, the major and basic problem is price. U.S. prices have been forced up by the price support formula to a point where our tobacco is no longer competitive in the world market. And, the end is not in sight. Unless the formula is changed this year, price supports for the 1983 crop will increase to a level whereby the more desirable export quality tobacco will be supported at more than $2.00 per pound. This will undoubtedly lead to lower export sales in 1983. This happened in 1982, when the volume of exports of flue-cured tobacco was about 10 percent below the previous year.

Recently, the Director of Leaf Purchasing for the British-American Tobacco (BAT), the largest cigarette producing firm in the world. Spoke at Tobacco Associates' annual meeting. He pointed out that ten years ago BAT purchased fifty-five percent of its flue-cured tobacco requirements from the U.S. Purchases by BAT of U.S. flue-cured have fallen to only eighteen percent of its requirements for flue-cured. He attributes this decline primarily to problems associated with price and quality.

The Imperial Tobacco Company of the United Kingdom purchased about 120 million pounds of U.S. flue-cured tobacco annually about 16–17 years ago. They are now buying only 12–15 million pounds annually. The Chairman of Imerial attributed this sharp decline to the fact that they are no longer getting the value for money spent on U.S. Flue-cured compared to competitive suppliers.

We see a similar movement away from U.S. tobacco on the part of customers all over the world. This is noted in statement after statement from USDA's Agricultural Attaches, who report that the relatively high U.S. tobacco prices are encouraging foreign buyers to seek alternative supplies. Excerpts from some of these reports are attached as Appendix B.

The quality of U.S. leaf has also declined noticeably in recent years due in part to the way price supports are operated. In 1973, about 84 percent of the U.S. flue-cured crop was composed of mature and mellow grades; in 1982, this figure was only 47 percent. The plain fact, Mr. Chairman, is the grower has no incentive to produce high-quality leaf when he can sell to the Pool at a support price which gives him a handsome profit on the deal.

What changes are needed in the program? The price support formula should be changed to bring the price more in line with grower costs and with the competitive realities of the marketplace. To put it simply, we have to eliminate the price gap between U.S. and foreign leaf in the marketplace so that U.S. tobacco can be sold competitively instead of stockpiled in the Pool at the growers' expense. We need a program which says to the world that the U.S. is going to be competitive and which

provides the authority to accomplish this objective over the shortest possible time frame.

A year ago, the LTEA made a recommendation which did accomplish this. The LTEA suggested that price supports should be related to the cost of growing tobacco plus a 15 percent to 30 percent margin to cover land management, lease costs, and a profit to the grower. There are undoubtedly other proposals which could work equally well to eliminate the competitive price gap between U.S. and foreign leaf. If we are committed to this objective, and we believe that most of the industry—growers, warehousemen, dealers and manufacturers—is, the question to be resolved is how fast we close the gap. The longer we take, the greater the risk of further loss of market and further reductions in U.S. production before we can start on an upward path.

Reducing the gap between U.S. and foreign prices would improve our competitive position and provide a basis for reversing the current downtrend in U.S. production, domestic consumption, and exports. This would virtually guarantee the program could be run at no cost to the taxpayer. Abroad it would tell our foreign customers that the U.S. intends to be a competitive and reliable supplier of tobacco and would signal our intention to remain a major factor in world tobacco markets. At the same time the lower U.S. support prices would make it less attractive and profitable for foreign countries to expand production and would encourage the substitution of U.S. leaf both domestically and in world markets with imports from foreign countries. Increasing sales of U.S. tobacco to domestic and foreign manufacturers offers the only real hope for expanding U.S. production.

One thing is unmistakably clear relative to the current high support price level. A grower cannot cover his cost of production, pay a high lease rate to allotment holders, make a profit, and compete in world markets. Therefore, we can expect: (1) inability to compete in the world market; (2) further losses in export business; (3) further increases in U.S. imports of cigarette leaf; and (4) further reduction in quotas.

It is urgent that action be taken for the 1983 and subsequent crops. If we are not competitive now, it makes little sense to increase price supports for 1983.

Token or cosmetic changes in the program will not resolve the problem. Neither can it be resolved by waiting three or four years to see if the current program is working. In fact, the disastrous experience in 1982 is stark evidence that it is not working.

A freeze in price supports is a step in the right direction, if it is the first step in a comprehensive program which will restore the competitive position of U.S. tobacco in the marketplace. However, a one-year freeze by itself would not be sufficient to restore our competitive market position. We did not get into the current precarious situation in one year and we cannot get out of it with a one-year freeze in price supports.

Mr. Chairman, you asked for specific comments on several issues.

In this connection, there has been some discussion relative to an export-type PIK Program for tobacco. One suggestion involved giving each purchaser of eight pounds of 1982 loan stock tobacco two pounds of the same grade of 1981 and prior crop tobacco. Such a program may help increase sales of loan stock tobacco; however, unless steps are taken to assure additionality, such purchases could result in a reduction by an equivalent amount in auction sales in 1983.

The possibility of Stabilization advancing only 70–90 percent of the support price at the time of sale has been discussed. This procedure would help make U.S. leaf more competitive and provide an incentive for the farmer to produce higher quality tobacco. Such a program will only work if the goal is to help make U.S. tobacco competitive over a period of years. A one-year program would do little or no good.

Mr. Chairman, we have been given an opportunity, perhaps a last opportunity, to make the kinds of changes in the tobacco program which are necessary to ensure that it can survive economically and politically. We're at "D Day", there are no tomorrows, and there is no time for halfway measures or Band-Aid solutions.

We need to act now to eliminate the abuses of the allotment system by restoring the original intent of the law—that growers hold allotments.

And even more important, we need to act now to halt further escalation in price supports for the 1983 and subsequent crops so that we can begin on the road to recovering our export position in world markets and to increasing production in the United States of high quality tobacco. This will ensure the continued prosperity of the grower while at the same time assure the taxpayer that the program can be run on a cost-free basis.

The future of the leaf tobacco industry is in the hands of all of us. I hope we are up to the task.

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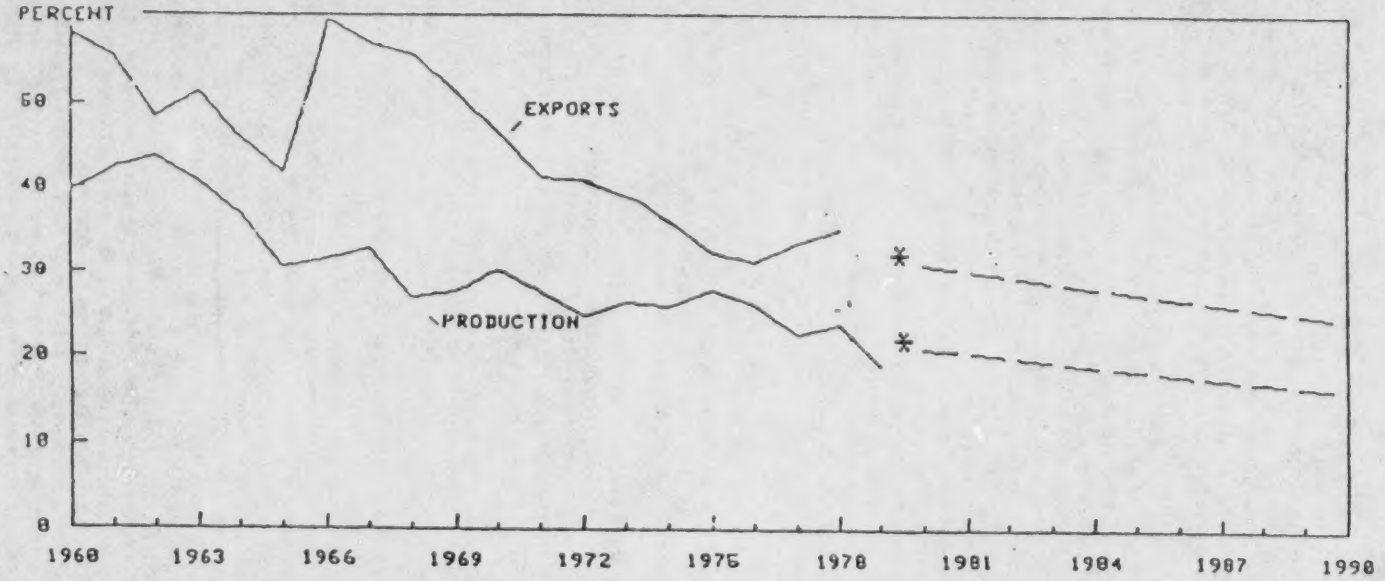
FLUE-CURED TOBACCO: U.S. SHARE OF WORLD PRODUCTION AND EXPORTS



* USDA PROJECTED FROM ACTUAL DATA.

USDA

NEG. ESCS 260-88 (86)

APPENDIX B

EXCERPTS FROM USDA'S AGRICULTURAL ATTACHES' RECENT REPORTS RELATING TO U.S. FLUE-CURED SALES PROSPECTS

AUSTRIA

"The U.S. share of Austria's tobacco market is declining as a result of the disparity of CIF prices between the U.S. tobacco and foreign leaf."

KOREA

"There are no plans to import any U.S. leaf in 1982"

SWEDEN

"United States unmanufactured tobacco exports to Sweden in 1981 were down 36 percent to 4,485 tons. According to the Swedish Tobacco Company, the difference in quality between U.S. tobacco and foreign growths has diminished; and as a result, Flue-cured tobacco grown in Brazil, Zimbabwe and Malawi now meets Swedish requirements. Also, high U.S. tobacco prices, when compared with prices of other tobacco exporting countries coupled with the high rate of exchange of U.S. Dollars in relation to Sweden currency, have widened price differences and led to a gradual decline in the U.S. share of the market."

WEST GERMANY

"U.S. leaf tobacco represented nearly one-forth of the total consumed (1981); however, the U.S. share of West Germany's consumption has been declining, and based on leaf exports in 1981 and so far this year, could dip to near 20 percent for 1982."

NORWAY

"The prospects for maintaining the present sales levels of U.S. tobacco on the Norwegian market are mixed. While the types of tobacco available in the U.S. are well suited for the main Norwegian tobacco products, high U.S. prices are encouraging the Norwegian industry to seek alternative supplies."

ITALY

"First, prices of U.S. tobacco have risen too much. This problem, added to a much more expensive U.S. Dollar, makes U.S. tobacco less and less competitive on the world market. Second, the quality of U.S. tobacco leaf, they say, is no longer as it used to be up to a few years ago."

NETHERLANDS

"Dutch cigarette manufacturers blame the U.S. support system for pushing up world tobacco prices to unrealistic levels. This system, they say, will in the end be detrimental to U.S. tobacco interests itself. Manufacturers have to buy other origin tobaccos. Already now, stock levels of U.S. tobaccos have been brought back to minimum levels."

STATEMENT OF HON. JAMES A. GRAHAM, NORTH CAROLINA COMMISSIONER OF AGRICULTURE

It is a pleasure to have an opportunity to present my views on proposed changes in the Tobacco Price Support Program to the Senate Committee on Agriculture and Forestry. The basic recommendations that have been agreed to by our tobacco organizations are essentially sound and will help solve our problems, but I urge you to make sure that enough flexibility is provided in legislation so that we do not have to return to the Congress for additional fine tuning.

There is little question that an adjustment in the price support level is necessary to ensure the marketability of our tobacco in both domestic and foreign markets. The adjustment should be a freeze on price supports at the 1982 level for at least two years. A two year freeze should allow the price of U.S. tobacco to reach a more competitive price to quality ratio. While the recommendations include a third year freeze based on the moving average of prices paid by farmers, I feel that the criteria for the continuation of the freeze should include the level of stocks held in stabiliza-

tion. If stocks are still being accumulated at unacceptable levels after two years, serious consideration should be given to continuing the freeze. I urge you to include a more flexible mechanism for extending the freeze beyond two years in this legislation.

In my opinion, the need to adjust the price support level is the most pressing problem facing tobacco today. This section of any proposed legislation must be given extremely careful thought. Our tobacco must be competitively priced if the tobacco farmer is to remain in business.

I am pleased that all organizations have agreed to ending the double No-Net Cost assessment. This aspect of the 1982 legislation has placed an unexpected burden on the grower who must lease quota. The termination of the double assessment will ease the economic burden on the grower and help his operation remain viable. The need for this relief will be more urgent if a price support freeze is implemented.

By increasing the new grower quota percentage from 1 percent to 2 percent, a strong commitment to the young farmer will be demonstrated. We often refer to the difficulties faced by young farmers across the country in beginning a farming operation. This action would help the new farmer to establish a base quota upon which an economic farming operation can be established.

It is also pleasing to note that the proposals currently being considered incorporate new management tools to aid in marketing domestic tobaccos. I agree wholeheartedly with giving Stabilization the authority to use funds collected through the No-Net-Cost assessment to reduce stocks held by the cooperative. This authority will allow the development of innovative techniques for reducing stocks and encouraging purchases of unsold tobacco. Such techniques could include the use of No-Net-Cost funds to advance loans to growers, thereby, saving the cost of interest on loans from the Commodity Credit Corporation.

Another step in the right direction is the requirement that allotment owners share in the risk of producing the crop when the quota has been leased. This requirement, coupled with ending cash leasing, will make the program more equitable and reduce the financial burden on the grower without harm to the allotment owner. This action would preclude the grower from using operating capital for lease costs and paying interest on that capital until the crop is marketed. When we consider the dependency of many farmers on borrowed capital, we must look for ways to help him reduce that dependency.

In regard to the proposal that all lease and transfer of allotments be terminated in 1986, I feel that a close examination of this suggestion is needed before the parctice is permanently excluded by legislation. Lease and transfer has been a viable management practice and has served the grower well. The practice has allowed the grower to reduce the cost of production; to centralize operations to allow more effective use of land and water; and to use capital and labor more efficiently. In addition, the practice has allowed young growers who do not own allotments, or who own very small allotments, to economically produce and market tobacco under the price support program. It may well be necessary to temporarily suspend lease and transfer, or to modify the conditions for the practice, but I do not think that it is wise to legislatively prohibit the use of this management tool.

Legislation is needed if our tobacco program is to survive. There is little time available if some relief is to be offered for this crop year. Our tobacco will be in greater demand if it is competitively priced. This will have to be done by adjusting the price support level, and only Congress can implement that action. I recognize the risks involved in getting legislation through the Congress, but the consequences of not taking the risks are extreme. Action must be taken soon.

STATEMENT OF HORACE R. KORNEGAY, CHAIRMAN, THE TOBACCO INSTITUTE

I am Horace R. Kornegay, Chairman of The Tobacco Institute, an association of tobacco manufacturers with headquarters in Washington, D.C. I submit this statement in behalf of our major member companies which are Brown & Williamson Tobacco Corporation, Liggett & Myers Tobacco Company, Inc., Lorillard, a division of Loews Corporation, Philip Morris Incorporated, and R. J. Reynolds Tobacco Company.

For decades, the Institute has actively opposed attempts to eliminate, dismantle or destroy the tobacco program. And we will continue to do so. The Tobacco Institute and its member companies have always and will always favor a tobacco support program that encourages a suitable supply of quality tobacco at competitive prices.

Additionally, we reaffirm our belief in and support of a tobacco program that provides United States leaf producers an equitable return and the opportunity to regain foreign markets.

In the past, the tobacco program has been modified to respond to changing conditions of world tobacco supply and demand. Once again, there is a critical need to move forward with meaningful revisions to the tobacco program at this time. Consequently, we support legislation that moves in this direction with the full realization that other changes may be necessary to optimize the program and restore the ability of the American tobacco growing community to compete in the world market.

We support efforts by the growers to amend the tobacco program if solutions satisfactory to the interests of the entire industry are forthcoming. The responsibility to propose those specific changes rests with tobacco producers. Since growers are those most affected by change, they must take the lead in initiating the necessary changes.

Permanent government programs aimed at stabilizing the national economy, including agriculture, date to the 1930's, when the Great Depression was threatening to destroy America's economy. The 1932 tobacco crop sold for nine cents a pound, and many farmers, unable to sell their leaf at auction, were using it as fuel. No one wants to return to these days or anything like them.

The tobacco program, founded on price stabilization and production control legislation, was designed to ensure that the farmer would earn a reasonable return for his considerable investment, yet provide for an adequate supply of tobacco to meet domestic and export needs. The concept was good then, and it is good today. The concept must be maintained. However, the tobacco program must be responsive to current and future economic developments.

The justification for Federal assistance in controlling tobacco production which was incorporated in the legislative findings of the Agriculture Adjustment Act of 1938 has been reaffirmed again and again by subsequent Congresses. It was valid then, and it is valid today.

"The farmers producing [tobacco] . . . . are subject in their operations to uncontrollable natural causes, are widely scattered throughout the Nation; in many cases such farmers carry on their farming operations on borrowed money or leased land, and are not so situated as to be able to organize effectively, as can labor and industry, through unions and corporations enjoying government protection and sanction. For these reasons, among others, the farmers are unable without Federal assistance to control effectively the orderly marketing of such commodity . . ." (Feb. 16, 1938 C.30. Title III Sec. 311(a), 52 stat 45)

Since 1933, the program has loaned over $5 billion and has incurred a relatively modest $58 million loss, or about one percent of total tobacco loan volume. During the same time period, however, tobacco product purchasers paid federal, state and local treasuries more than $142 billion in excise taxes—a return of over $2400 for every dollar spent on loan charge offs.

This tobacco industry's contribution to our Nation's economy is enormous—more than $57.6 billion to the 1979 Gross National Product, according to a study by the Wharton Applied Research Center at the University of Pennsylvania. This amount was 2.4 percent of the GNP for that year. That contribution generated the equivalent of over two million jobs—and some $21 billion in taxes of all kinds to federal, state and local governments.

This great contribution to the Nation's economy begins with and depends on the hard work, dedication, enterprise and investment of the more than half a million farm families who produce tobacco on more than 200,000 farms in 22 states. Their fundamental role since Colonial times has been to create and nurture the basic commodity of our industry. That historic role will continue to be the nucleus of the industry's strength in the future. Any changes in the tobacco program must be changes proposed by and supported by the tobacco growers.

Statement of the American Farm Bureau Federation

The American Farm Bureau Federation, the nation's largest general farm organization representing more than 3.2 million member families in 48 states and Puerto Rico, is pleased to present its views concerning the tobacco price support program.

We are all aware that large amounts of 1982 crop flue-cured and burley tobaccos have entered into the loan program. It is true also that for the first time, tobacco producers are being assessed on every pound of tobacco marketed, so as to endure that there is no net cost to the federal government. Concurrently, domestic and world demand for U.S. tobacco is not as great as some would like. In some instances,

these factors have contributed to a questioning of the viability of the no net cost tobacco program, legislation which Farm Bureau and others worked hard to develop in the 97th Congress. This bill constructively revised the tobacco price support program to increase its market orientation, and to ensure that there would be no net cost to the federal government for price support operations.

Since the enactment of the No Net Cost Tobacco Program Act of 1982 (P.L. 97-218) last year, very little time has passed yet questions are already being raised with regard to the program. Additionally, outright attacks on the entire tobacco price support program are being made without even allowing the new act sufficient time to test its effectiveness. This is the main overriding concern of the American Farm Bureau Federation, that is, that additional time and experience with the newly revised tobacco program is necessary before major change should be considered. In the meantime, if necessary, minor fine tuning of the law may be appropriate.

The American Farm Bureau Federation's voting delegates adopted the following policy for 1983 relating to tobacco:

"We support a tobacco program which provides that growers shall keep supply in line with demand in return for price support loans.

"We support a tobacco loan program for each type of tobacco that results in no net cost to the government.

"It is essential that USDA continue to provide grading service and loan program for tobacco marketed in loose-leaf form or hand-tied.

"We support domestic and foreign buyers being permitted to purchase tobacco directly from tobacco cooperative loan associations."

Based on 1983 Farm Bureau policy, and action by the AFBF Board of Directors, we would like to address the several areas of concern which the Committee is currently considering.

The tobacco price support level and formula is of concern to the Farm Bureau. Farm Bureau recommends that the price support loan for flue-cured tobacco be stabilized at the 1982 level for 1983 and 1984.

In discussing the price support level, it is clear that it can have an effect on demand. This factor needs to be taken into consideration when assessing the current situation of large carryover stocks and weak demand. It is equally important to note that both the United States and the world as a whole have been in the midst of one of the most severe economic recessions in recent history. This recession, combined with recent increasing strength of the U.S. dollar in relation to foreign currencies, has resulted in all U.S. farm commodities, not just tobacco, becoming more expensive for our foreign purchasers. This has had an effect on demand and our total agricultural exports. Stabilizing the flue-cured price support loan will help the U.S. maintain its competitive position in the world and domestic markets.

An additional major factor on demand had nothing at all to do with the price support level. Last year, the Congress of the United States enacted the Tax Equity and Fiscal Responsibility Act of 1982, (TEFRA) which contained a doubling of the federal excise tax on cigarettes from 8 cent to 16 cents per package. There is no question that Congress has served a negative blow to the tobacco sector by this tax increase.

The high cost of cash leasing to tobacco quotas and allotments is of concern to many producers. However, an overriding concern by our Farm Bureau membership is that agriculture not be subject to overregulation by government. We do not believe that the federal government should set the price of cash leasing.

Farm Bureau does recommend, however, that cash leasing for flue-cured tobacco be eliminated by 1984, and that lease and transfer of allotments for flue-cured tobacco be terminated by 1986. This action, combined with the current provisions of law which allow the sale of flue-cured tobacco quotas to actual producers, will continue to structure the program so allotments are moved increasingly into the hands of producers.

Although Farm Bureau supported enactment of the No Net Cost Tobacco Program Act of 1982, we did oppose what has become to be known as the double assessment. Farm Bureau urges the elimination of the double assessment.

Concerning carryover tobacco, Farm Bureau continues to support the use of carryover pools for tobacco when such carryover programs are operated by the tobacco loan associations. We believe this is the best way to deal effectively with crops in a year in which a surplus is produced and can be marketed at a later time.

Although a payment-in-kind, or PIK program is in effect for wheat, cotton, feed grains and rice, Farm Bureau does not support a PIK program for tobacco. In addition, Farm Bureau opposes the advance payment of 70 to 90 percent of the support price by stabilization.

The reduction of stabilization stocks is closely tied to overall demand and production. We have addressed some of the factors affecting demand earlier in our statement. If appropriate measures are taken to strengthen demand, yet stocks continue to build, then additional steps on the price support side or more rigid production controls may be necessary. It has become evident that whenever an attempt is made to defend a domestic support price which is out of line with world market prices for an internationally traded commodity, surplus stocks will build in the producing country. The prime example of this situation is in some of the basic commodities. Where unrealistically high support prices have caused the build up of excess stocks in government hands, this has resulted in the establishment of such things as the PIK programs.

Farm Bureau supports the current methods of measuring planted flue-cured tobacco acreage on an annual basis. This includes aerial photography and ground spot checks by the Agricultural Stabilization and Conservation Service. There is considerable sentiment that all planted flue-cured tobacco acreage be measured from the ground on an annual basis. In considering such measurement, Farm Bureau believes it important to ask by what means will the cost of measuring be paid. Will this cost for measurement services be charged directly to the producer, or will it be added to the administrative cost of the tobacco program?

Under "other recommendations" regarding the tobacco price support program, Farm Bureau urges repeal of the 5 percent quota reduction limitation for burley (type 31) and fire cured (types 22–23) tobacco. The current tobacco program provides that the Secretary of Agriculture cannot reduce the burley tobacco quota by more than 5 percent from the preceding year's quota. This limitation restricts the flexibility needed to adjust supply to disappearance in years following a large crop and depressed demand as was experienced in the 1982–83 marketing season.

Farm Bureau supports direct sales in international markets by farmer-owned cooperatives such as the Flue-Cured Stabilization Cooperative. We need to aggressively market our tobacco in world markets. Such marketing efforts should not be left solely in the hands of international tobacco traders who have no particular allegiance to domestic tobacco producers.

Finally, the American Farm Bureau recommends that tobacco be exempted from the provisions of the Caribbean Basin Initiative legislation before the Congress this year. The CBI will provide duty free entry into the United States of additional quantities of foreign grown tobacco. Tobacco grown outside the 24 CBI countries could be processed or threshed into so-called "scrap tobacco" and shipped into the United States. This free trade CBI area will require a 25 percent value-added minimum within the region to qualify for duty free access to the United States. Tobacco producers are concerned that "stemming and threshing" tobacco within the region would meet the 25 percent value added requirement, and that large quantities of scrap tobacco could enter duty free. Certainly, work needs to be done to improve demand. At the same time, however, we cannot afford to stand idly by and allow our tobacco markets to be confiscated by foreign-grown tobacco.

In conclusion, Farm Bureau recognizes that the tobacco program is not without its problems. However, we believe that the No Net Cost Tobacco Act needs additional time to operate so that we are certain as to both real problems and sound solutions. In the meantime, Farm Bureau believes that the modifications recommended above will enhance the progressive, constructive and market-oriented changes which were made by the "No Net Cost Tobacco Act".

BURLEY & DARK LEAF TOBACCO EXPORT ASSOCIATION, INC.,
Washington, D.C., June 13, 1983.

Memo to: Senator WALTER D. HUDDLESTON.
Re proposed changes in the tobacco program.

The loan associations administering the price support program for the Kentucky-Tennessee dark air-cured, types 35 & 36 and dark fire-cured types 22 & 23, and cigar filler and binder types 42, 43, 44 & 53, 54 & 55 endorse the proposal to freeze prices for future crops for their kinds of tobacco. They prefer that this be effective for the 1984 & 1985 crops, but would go along with the 1983–1984 crops if there is unanimity with other types.

They do not want any change in the statutes relating to lease and transfer of allotments for their kinds of tobacco.

They would favor legislation permitting the "No Net Cost Fund" to be applied to the outstanding loan from CCC on 1982 and future crops.

They endorse legislation to require the USDA to actually measure tobacco acreage allotments in order to keep the program sound.

Very truly yours,

FRANK B. SNODGRASS,
Vice President and Managing Director.

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